



Improving Performance by
Deploying Business Suite with

Managing Multi-State HR and Payroll

*Leveraging New SAP-based Capabilities to Optimize Costs,
Performance, Data Availability, and User Satisfaction*

Overview

The Challenges of Multi-State Payroll Processing

Multi-state payroll processing and taxation management are more complex and demanding than ever before. Not only do all states have their own unique tax laws, but most state departments of revenue are becoming more focused on enforcement. This makes it very important for payroll departments to file taxes in a timely and accurate manner in order to avoid penalties, audits and delays.

Definitions

Multi-state employee: an individual who is subject to taxation by more than one state in a given payroll period. (An example of multi-state employees would be a construction crew that works on various jobs in various states.) If you have employees in more than one state, but they are not required to pay state taxes other than to their states of residence, they would not be considered multi-state. Instead, each employee would be set up for state taxation based solely on his or her state of residence.

Multi-state company: an employer who will pay state taxes (W/H, SUTA, etc.) to more than one state during the course of a payroll year.

State Withholding Taxes: These are state taxes that are to be withheld from each employee's earnings on a pay-as-you-go basis and paid to the employees' state(s) of residence according to each state's governing regulations. Exemption status for state withholding is typically guided by the employee's information on their Federal W-4 Form; however each state's requirements are different for calculating, processing and paying the withheld amounts.

State SUTA, Worker's Comp, etc.: State Unemployment Tax Act (SUTA) and worker's compensation taxes are normally paid to the employee's state of residence. Any employee can be assigned to a specified state for SUTA or Worker's compensation, even if the Company's resident state is different.



SAP Payroll Capabilities, Options and Application

As a complete business solution used by mid-size businesses as well as the world's largest organizations, SAP is designed to accommodate complex multi-jurisdictional requirements. The human resources functions within SAP can handle all withholding and tax deduction processes for a multi-state company as well as for multi-state employee situations.

For example, if a company has one group of employees that works and pays taxes in New York and another group that lives and pays taxes in New Jersey, the company would simply assign the correct State Tax Table to each employee. The SAP system will then keep track of the tax obligations in each state and print all W2's and W3's as needed. Not only can SAP handle multi-state employees and multi-state companies, from tax deductions to disbursements; SAP is the only software that can handle multiple states within a given payroll period. Also, if an employee changes states in the middle of a pay period, SAP can prorate and split the taxes accordingly.

Basic SAP Personnel Structure

EMPLOYEE GROUP: An Employee Group is used to classify employees in general terms. It defines the position of the employee within the company's workforce, which is identified by 1 character alphanumeric code (Ex 1 , A). Some examples of different valid Employee Groups would be Active, Pensioners, External contractors, etc. Each Employee Group has the following important organizational functions:

- Can be used to generate default values for data entry, example for payroll accounting area or an employee's basic pay.
- Can be used as the selection criteria for reporting functions
- Can be used as an entity for authorization checks

EMPLOYEE SUBGROUP (ESG): Employee Subgroups are subdivisions of Employee Groups. Each ESG is assigned a 2 character alphanumeric identifier. Examples of valid ESGs for an Active employee would be Trainee, Hourly Wage Earner, Salaried Employee, Non-pay scale employee, etc. Employee regulations for HR and Payroll are defined at the Employee Subgroup level.

Some important indicators that are defined by the ESG include groupings for the following:

- Work Schedules
- Appraisals
- Grouping for Wage types
- Grouping for Collective agreement provision
- Processing of employee's payroll
- Assigning employee characteristics like activity status, employment status and level of training
- Time quotas
- Payroll Area

SAP ERP Human Capital Management and SuccessFactors

The integration of advanced add-on options such as SAP ERP Human Capital Management (SAP ERP HCM) and SuccessFactors Business Execution (SuccessFactors BizX) enable integration of employee data, organizational data, compensation data, application data, and data for employee evaluation purposes.

Basic employee data and organizational data are transferred from SAP ERP HCM to SuccessFactors BizX to support Talent Management and other business processes. Analytical data is transferred from SAP ERP HCM to SuccessFactors Workforce Analytics to support workforce planning and workforce analytics. The integration for compensation data is bi-directional: Compensation data is transferred from SAP ERP HCM to SuccessFactors BizX to support compensation planning processes and, when planning has been completed in SuccessFactors BizX, the compensation planning results are returned to SAP ERP HCM so that this data can be included in payroll.



SAP Tax Component

SAP's Tax component calculates the amount of tax that needs to be deducted from employees' pay each pay period according to the relevant federal, state and local tax authority's regulations. It also generates the information used to create tax reports required by various taxing authorities.

The Tax component is an integral part of the US Net Payroll component and requires an additional software license for BSI TaxFactory. This is a third-party product from Business Software, Inc (BSI) that serves as the tax calculation engine for SAP's US Payroll solution. TaxFactory is a requirement for running SAP Payroll in the United States.

This component relies on data from the HR Master Data component as well as from the HR Net Payroll component to calculate taxes. Information generated in the Tax component is used by the Tax Reporter component to generate various tax reports.

The Tax component supports all payroll tax authorities at the federal, state,

county, city and school district level. It also supports different payment types for tax calculation (regular, supplemental, cumulative and vacation) and multiple payment methods for each payment type, such as regular, cumulative, etc.

The Tax Calculation Process

Before the SAP Payroll component sends any data to the BSI TaxFactory for tax calculation, the payroll driver goes through a number of steps to determine exactly which taxes will be applied for each payment or deduction wage type. These steps depend largely on how you configure wage types, tax types, tax authorities, and taxability models in the Tax section of the Payroll: USA IMG. This topic illustrates the process by which the payroll driver determines which tax calculations will be performed by the BSI tax calculation engine.

Prerequisites

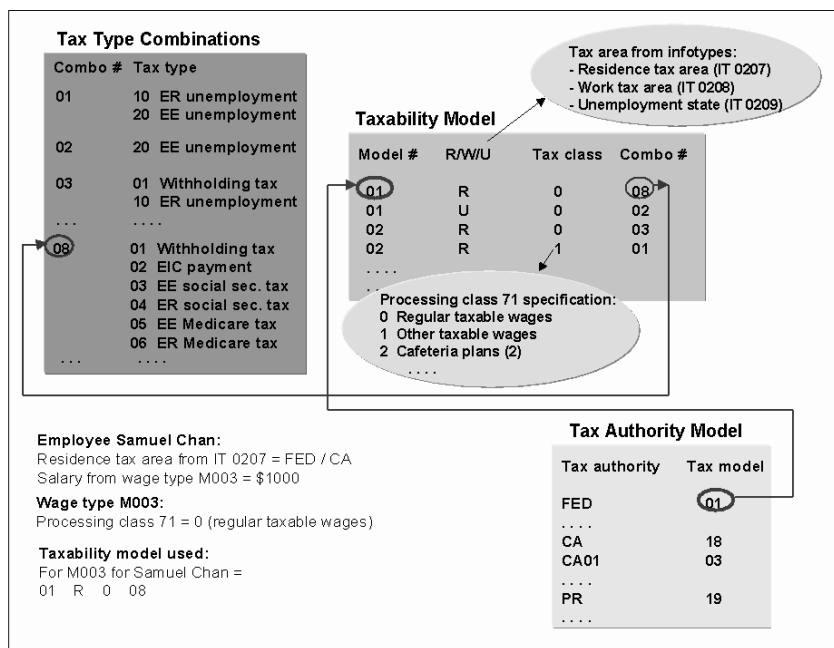
- All relevant configuration steps in the Tax section of the Payroll: USA IMG have been carried out.
- All relevant employee master data is maintained, such as Infotypes 008, 0207, 0208 and 0209.

Process Flow

The tax calculation process follows these steps:

1. The payroll driver determines which tax authorities apply to the employee, such as residence area FED, by looking at the employee's master data.
2. The payroll driver reads a wage type and its tax class (processing class 71 specification). For example, M003 Salary of \$1000.00 with processing class 71 specification 0 (Regular wages).
3. Based on the applicable tax area and tax authority, the payroll driver selects a taxability model for this combination of tax class, tax area and tax authority.

The following graphic illustrates the SAP tax calculation process.



In this case, the taxability model would look like this:

Tax Authority	Tax Model	R/W/U	Tax Class	Tax Type Combo
FED	01	R	0	08

Based on the tax type combination included in the taxability model, the payroll driver determines which tax types must be applied to the wage type amount. The payroll driver sends BSI the wage type amount and the relevant tax types. In this case, the following data would be sent to BSI for tax calculation. The BSI tax engine

Amount	Tax Type
\$1000	01 Withholding tax
\$1000	02 EIC payment
\$1000	03 EE Social Security
\$1000	04 ER Social Security
\$1000	05 EE Medicare
\$1000	06 ER Medicare

then calculates the tax on the wage type amount. The tax types passed to BSI determine which calculation formulas it uses. BSI returns the results of the tax calculations to the SAP Payroll system, including the tax amounts calculated for each wage type amount and tax type. This information appears in the payroll log.

Result

The tax wage types determined in this process are stored in the payroll results cluster for the employee. These tax wage types can also be copied to the tax interface tables where they form the basis for various tax reports generated by the SAP Tax Reporter component.

Tax Allowance Processing

Most jurisdictions allow reductions to taxable income based on different factors, and these factors vary from jurisdiction to jurisdiction. The different factors have been incorporated into the system to determine how data can be entered into various tax-related infotypes, as well as how employee allowances and tax exemptions are handled by the payroll driver.

Tax Allowance Thresholds

The reporting thresholds for withholding allowances are stored by jurisdiction. If an end user creates an Infotype 0210 W-4 Withholding Information record with exemptions greater than the jurisdictional threshold (e.g. 10 for federal), the system will accept the entries and issue a warning that the employee's W-4 certificate should be filed to the relevant agency.

The Withholding Allowance Report (RPUTAXU8) is also available to report those employees who claim exemptions greater than the jurisdictional threshold or greater than their existing mandated values.

This report checks Infotype 0210 W-4 Withholding Information records and displays

all employees whose allowances exceed the allowed limits and whose filing status is not the same as their Infotype 0161 IRS Mandates record. This report can be accessed from the main SAP US Payroll menu as follows: *Info system* → *Tax* → *Withholding Allowance Report*.

Federal and State Rules Governing Exemptions

Exemption expiration dates are stored by jurisdiction. If an employee claims a withholding exemption, the system will automatically delimit the Infotype 0210 record with the corresponding effective date. If a new exemption certificate is not supplied by the employee, the system will automatically withhold tax for check dates after the jurisdictional-mandated date.

The Exemption Expiration Report (RPUTAXU7) is also available. It displays all employees whose exemptions are due to expire within a selected date range. You can access this report from the main US Payroll menu as follows: *Info system* → *Tax* → *Exemption Expiration Report*.

Defaults and Edits

The system contains edits at the jurisdictional level to ensure an end user does not set up allowance data which is not allowed. For example, the states of AZ, MS, PA, and PR do not allow additional withholding. This means, if a user attempts to enter an additional withholding amount on Infotype 0210, the system will return an error message.

If an Infotype 0210 record is not set up for a state and that state does not allow employees to use withholding information from the Federal W-4, the system will now default correctly to the individual state rule.

Tip Income Taxation

This process allows the system to handle tip income separately from regular income when calculating taxes.

When calculating taxes for regular income and tip income, different wage types are used for storing the results. In case of retro-calculation, the calculation for tip incomes (and other non-cash incomes) always uses the 'Tax when earned' principle.

Prioritization of regular income taxes and tip income taxes is done by using the tax priority module.

If there is any amount not taken for tip income taxes, it is stored in table RT with a wage type assigned via T51P1 for the tip income tax. This wage type is the 'Not taken' wage type.

In subsequent payroll runs, some 'Not taken' taxes are recovered by self-adjustment during the tax calculation. This recovery process must be performed separately between regular income taxes and tip income taxes.

Employee Tax Information

Employee tax information is used by the US payroll driver to calculate the tax an employee is liable to pay and the amount the employer must contribute to federal, state and local tax, as well as unemployment insurance.

Employee tax information consists of many separate pieces of information. To ensure that an employee's withholdings are processed correctly, the following master data infotypes must be maintained: (Active links are provided for SAP Help on each Infotype)

Address (Infotype 0006) The employee's permanent address is also used as their tax residence. If these are not the same address, a different record can be created for the home address.

Residence Tax Area (Infotype 0207) The Residence Tax Area establishes the tax authorities that may levy tax on an employee.

Work Tax Area (Infotype 0208) The Work Tax Area is used to calculate the amount of taxes paid to each authority for an employee who works across several tax areas.

Unemployment State (Infotype 0209) Each employee is assigned to an unemployment state so that Unemployment Insurance can be paid for that employee.

Withholding Information (Infotype 0210) Details from an employee's Federal Employee Withholding Allowance Certificate, State Employee Withholding Allowance Certificate and the equivalent certificate for local tax authorities are held in the system. They are used to calculate deductions from an employee's pay.

Withholding Overrides (Infotype 0234) In addition to holding information from employees' Withholding Allowance Certificates, you may wish to store data for a tax authority that the payroll should use to calculate withholdings from special payments.

Other Taxes (Infotype 0235) In certain exceptional circumstances it may be necessary to record alternatives to the standard calculation of taxes for an employee.

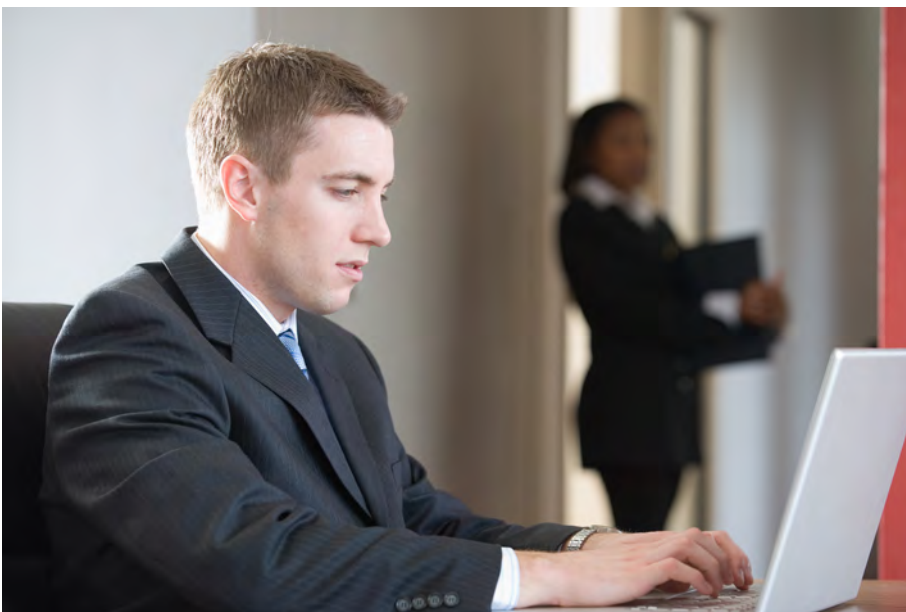
IRS Mandates (Infotype 0161) If an employee has limits or exemption amounts set by the Internal Revenue Service (IRS) or equivalent state and local authorities, these will be taken into account by the system.:

SAP's Tax Reporter

The SAP Tax Reporter component enables companies to produce payroll tax and other reports for multi-state and other government authorities in the format required by each jurisdictional authority.

Tax Reporter generates the following forms:

- Form 940 – Employer's Annual Federal Unemployment Tax Return



- Form 941 – Employer's Quarterly Federal Tax Return
- Form 941C
- Form W-2 – Wage and Tax Statement
- Form W-2C
- 1099-R
- 1099-RC
- Multiple Worksite Report (Combined format for Bureau of Labor Statistics)
- Unemployment Insurance reports for all states

Tax Reporter also supports all transmittal forms associated with the above forms, including Forms W-3, W-3c, 945, 1096 and 6559. Aside from Forms W-2c and 941c, Tax Reporter supports correction forms for Form 1099-R and all SUI and MWR forms. At the local level, Tax Reporter supports year-end magnetic media reporting requirements to meet the formats specified by a number of local tax authorities.

Implementation Considerations

Tax Companies: Tax Reporter can only be run in production mode for an entire tax company. In the SAP system, you assign tax companies to employees indirectly – via the personnel area and subarea (using the IMG path: Payroll USA → Tax → Tax companies). You should therefore ensure that tax companies have been defined correctly and are represented properly in employee payroll results before you start testing tax reporter.

Client-dependent entries: Where SAP delivers preconfigured tax form tables for a magnetic media report (diskette or tape) such as the SUI or W-2 reports, the configuration is loaded to your system either as a transport or as a Human Resources Support Package (HRSP). For this reason, it is very important for the IT support teams responsible for HR to understand how

to properly cascade customizing entries from client 000 to the test and production clients.

Worksites: To produce a Multiple Worksite Report (MWR) from the SAP Tax Reporter component, the worksites must exist in the configuration for US Personnel Administration. Users should be trained to enter the worksite on the Unemployment State infotype (0209) when hiring or transferring employees.

Tax Reporter supports at least one of the required media formats for each tax authority and report provided. For example, some reports are set up to be compliant for magnetic tape reporting as opposed to diskette or paper, and the supported format may vary from one tax authority to another.

Additionally, users can create their own tax reports for authorities and/or forms not supported in the standard SAP Payroll system. For example, if you have employees in the state of Pennsylvania, you may want to create a number of custom tax reports for reporting withholding and occupational taxes and wages to the many school districts and other tax authorities in that state.



Integration with Overall Business System Processes

A major element in the overall value inherent to SAP is the ability to bring all aspects of end-to-end business activities together within a unified whole. This is particularly true for any company that has employees and operations spanning multiple states. Not only do these companies need advanced payroll solutions that can handle the complexity of different jurisdictions; they also need underlying business software that supports geographically dispersed business operations.

In most cases, this involves the need for multi-location ERP, CRM, financial aggregation and reporting, real-time analytics, mobility solutions and cloud-based applications, as well as the implementation assistance, training and ongoing support to ensure optimal performance and uptime availability.

Over the course of many system implementations, Idhasoft has become very aware that every company's specific requirements are unique. With all of our solutions technologies, we approach each challenge by first understanding the client needs and then tailoring the tools and system options within the implementation scenario so that all of the pieces serve as extensible building blocks that achieve the current requirements while at the same time building in a growth path for future needs.

By partnering with Terra Information Group (TIG), Idhasoft has extended our deep SAP capabilities to also encompass TIG's industry-leading expertise in human resources solutions that are optimized for the SAP environment. Together, Idhasoft and TIG are able to deliver and support complete end-to-end business systems that seamlessly incorporate complex multi-state payroll and other HR functions into each customer's core business operations - - optimizing efficiency for today while simultaneously laying a firm foundation to support future growth, enhanced customer satisfaction and higher profitability.

About Idhasoft:

Idhasoft Inc. is a global leader in strategic technical solutions, SAP® gold channel partner and 2010 SAP Business All-in-One Partner of the Year-USA, providing innovative end-to-end business solutions to companies around the world. Idhasoft's founding vision is to serve the SMB marketplace with a unique blend of business solutions and services. We help our clients drive efficiency, improve profitability and build a lasting competitive advantage.

Idhasoft capabilities and services include the following:

- 100% commitment to SAP solutions, services and technologies
- SAP Gold All-in-One Solution Provider and Premier Implementation Partner
- Partner Center of Excellence Certified master VAR
- SAP Certified Industry Specific Solutions
- Dedicated SAP Practices- ERP, CRM, SRM, SCM, BI and Net Weaver/Portals
- Senior SAP experienced consulting team with both industry and SAP experience
- Invited expert each year at ASUG, SAPPHIRE and other SAP conferences
- State-of-art Solutions Center with SAP Ramp-up Applications

- Idhasoft's pre-configured Industry and Solutions templates
- Our consultants work closely with SAP COE and SAP Product Development

About Terra Information Group:

TIG was started in early 1997 as a US-based company with an international vision. Since then TIG has grown into a leading provider of complementary tools, web solutions and consulting services to SAP users in Europe and the States. Around the world, TIG has consultants with experience in finance, manufacturing & logistics, supply chain, marketing & sales and human resources management.

Our expertise includes both the functional areas, as well as the key enterprise application modules for each area of SAP. TIG's SAP Consulting services are designed to assist our customers through the complete solution life cycle, right from the stage of identifying requirements and designing the solution to implementation and post-implementation support. Our dedicated SAP solutions consulting group offers the following services to our customers:

- Implementation
- Version Upgrades
- Offshore Development
- Application Integration
- Post-Implementation Support
- Staff Augmentation and On-Demand Consulting



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