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Tax Intelligence

Mergers and Acquisitions – Employment Tax Considerations

Situation

The beginning of a calendar year is a popular time for employers to implement a reorganization, merger, acquisition or divestiture. While transactions occurring at the beginning of a year may minimize certain employment issues such as wage base restarts and multiple Forms W-2, it is critical to consider other employment tax impacts and to ensure transactions are properly reported. Listed below are a few of the common employment tax compliance, payroll systems integration, and general issues that a payroll department encounters with most mergers, acquisitions, or reorganizations. Other factors may also need to be addressed depending on specific circumstances.

Solution

Employment Tax Compliance Considerations

- Registration for new state income tax ("SIT") withholding, local income tax ("LIT") withholding, and state unemployment tax ("SUI") accounts
- Required status updates to state workforce agencies related to transfers of employees, unemployment experience and common control provisions
- Account closures for inactive SIT, LIT, and SUI tax accounts

Payroll Systems Integration Considerations

- Potentially new Forms W-4 required from transferring employees (including state and local equivalents) due to change of employers
- Integration of potentially different pay cycles on employment tax liability/deposit dates

Other General Employment Tax Considerations

- Pre-acquisition activity to take advantage of available planning options; to identify potential refunds; to avoid the unintentional assumption of liabilities; and to develop an appropriate transaction integration plan
- Third party payroll provider requirements and constraints (timing, additional forms, powers of attorneys, etc.)
- Review payroll policies and procedures for consistency and consolidation; develop "best practices" (i.e. nonresident withholding, third party sick pay, fringe benefits, etc.)

Additional Employment Tax Considerations When Transaction Occurs Mid-Year

- Impact of transaction type (stock, asset, and/or merger) on reporting Forms W-2, 941, and 940.
- Successor status provisions associated with Social Security, federal unemployment ("FUTA"), and SUI regarding impacts on taxable wage bases
- Required tax account reconciliations to match deposits to liabilities reported on Forms W-2 for certain mid-year transactions at federal, state and local levels

Value

Proper compliance with federal, state and local employment tax laws is critical regardless of the effective date of a transaction. For more information on compliance requirements and planning options, please contact your tax consultant or Pete Krieshok at (314)214-7325 or pkrieshok@talx.com. Visit our blog for more tax tips and information at <http://blog.talx.com/>.