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New York Payroll Audit Defense Services

Employment Tax Advisory

Internal Use Only

The risk of New York payroll tax audits is increasing

The New York State Department of Taxation and Finance reports that income tax withholding audit assessments have steadily increased each period since fiscal year 2014, underscoring the growing risk of noncompliance for businesses with employment activity in the state.

The New York State Department of Taxation and Finance has aggressively pursued income tax withholding audits for decades; however, of renewed concern is the substantial increase in audit assessments since fiscal year 2014.

The Department reports that withholding tax audit assessments in fiscal year 2014 reached \$33.2 million, increased to \$50.8 million in fiscal year 2015 and will exceed \$62 million in fiscal year 2016.

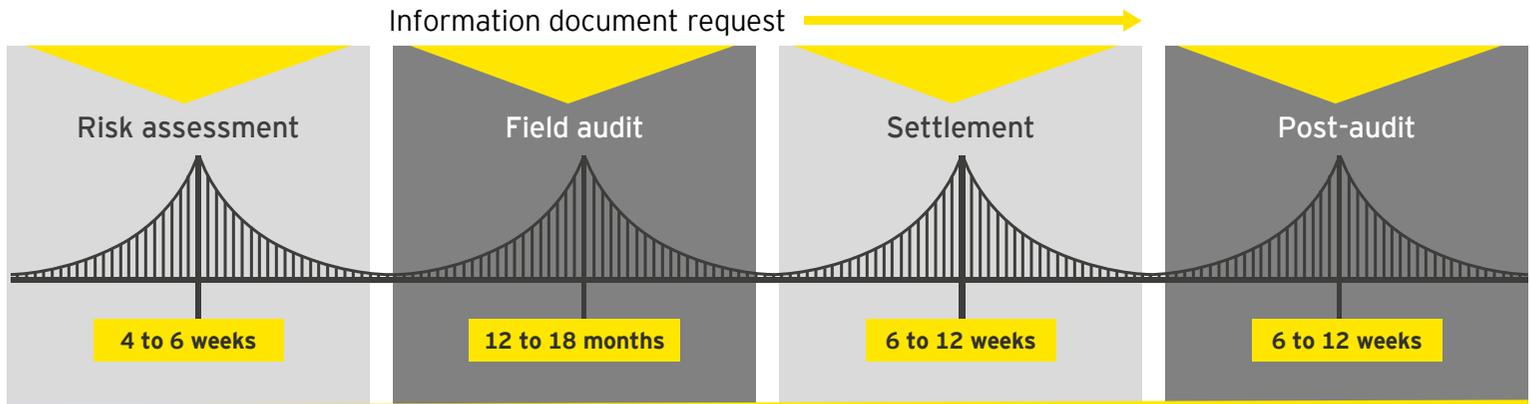
Adding to this risk is the increased focus on New York worker misclassification. In 2014, the state established a Joint Enforcement Task Force on Employee Misclassification, which includes the New York State Department of Taxation and Finance, New York State Department of Labor,

New York State Workers' Compensation Board and New York State Attorney General. In 2014, the Task Force coordinated with the Department of Labor to:

- ▶ Assess \$15.9 million in unemployment insurance tax
- ▶ Discover \$580 million in unreported wages
- ▶ Share audit findings with Task Force agencies for income tax and workers' compensation insurance purposes

All of these developments elevate the cost of noncompliance with New York payroll tax and insurance rules and increases the need for affected businesses to evaluate their performance in this area.

New York Payroll Audit Defense Services



- ▶ Review company policy and procedures
- ▶ Identify information sources; confirm completeness of data
- ▶ Understand and document data anomalies
- ▶ Provide summary of findings

- ▶ Serve as a liaison with the New York auditor
- ▶ Codevelop initial response to audit questionnaires and notices
- ▶ Prepare responsive materials to the [information document request \(IDR\)](#), including preparation of electronic data files; gap mitigation; footnote exceptions; and document assessments that should not apply
- ▶ Participate in agency conferences

- ▶ Seek executive waivers
- ▶ Review penalty assessment accuracy
- ▶ Facilitate agency discussion of audit terms
- ▶ Review and explain final audit assessment
- ▶ Coordinate audit closing steps, including preparation of amended employer returns
- ▶ Assist with employee communications and tax return preparation
- ▶ Develop steps for, and assist with, ongoing monitoring

- ▶ Identify policy changes and codevelop revisions
- ▶ Review and document updates to procedures
- ▶ Prepare process statement for ongoing executive governance
- ▶ Help with regular compliance review
- ▶ Facilitate annual review of tax and reporting setups for earnings and deduction codes

Why Ernst & Young LLP?

- ▶ We've supported over 100 audit examinations in the past five years.
- ▶ Recently, we assisted these clients in reducing their New York audit assessments:
 - ▶ **Financial services**
Original assessment: \$25 million
Reduced assessment: \$920,000
 - ▶ **Financial services**
Original assessment: \$5.8 million
Reduced assessment: \$55,000
 - ▶ **Health care**
Original assessment: \$300,000
Reduced assessment: \$27,000*

* For illustration purposes only. Actual tax benefits will vary depending upon the taxpayer's specific fact circumstances.

Contact us for more information

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SCORE No. 00859-161US
CSG No. 1604-1907962 SW
ED none.