

A hand is shown holding a wooden hourglass with purple sand. The hourglass is positioned vertically, and the sand is flowing from the top bulb to the bottom bulb. The background is a blurred indoor setting with a window. A yellow banner is overlaid on the top right of the image.

# 2021 payroll year-end checklist

The EY logo consists of the letters 'EY' in a bold, dark blue font. A yellow chevron shape is positioned above the 'Y'.

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# Ernst & Young LLP's 2021 payroll year-end checklist

by Debera Salam and Kenneth Hausser, Ernst & Young LLP



It is time to consider all the tasks necessary to successfully close 2021 and open 2022.

From tax filing to taxability, there is so much to consider when closing the year and starting anew and with federal, state and local rules constantly changing, preparing a year-end payroll checklist is no simple task. To get you started, we have compiled a sample checklist of items to consider for 2021 and 2022, and state charts to guide you through the Form W-2 and electronic filing requirements that apply.

## **What's included**

Ernst & Young LLP's sample 2021 payroll year end checklist

Table 1: 2022 federal holidays

Filing electronically for tax year 2021

Table 2: Federal electronic filing due dates for 2021

Table 3: Special wage payments from A to Z – sample list

Table 4: 2021 state Form W-2 requirements

Year-end employment tax reporting compliance

# Ernst & Young LLP's 2021 payroll year-end checklist

We have created a sample checklist of the top 30 payroll and employment tax activities for year-end 2021. Columns are included for inserting your own deadlines and the date you completed the tasks. Keep in mind that this is not a comprehensive list. Each business is unique in its payroll processes. Make a careful inventory of your own requirements and augment this checklist as necessary.

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p>1 <b>Order Forms W-2 for 2021.</b> If purchasing Forms W-2 from a supplier, order and inspect the incoming stock. For software packages used in preparing Forms W-2, request the dated approval notice that the software provider obtained from the Social Security Administration (SSA).</p>	November 15, 2021		
<p>2 <b>Form W-4 verification.</b> Ask that employees review their name, address, Social Security Number and Form W-4 and confirm that their federal, state and local income tax withholding elections are correct for 2021.</p>	December 1, 2021		
<p>3 <b>2021 Forms W-4 claiming exemption.</b> Run a report of all employees claiming exemption from federal income tax withholding on Form W-4. If no 2022 Form W-4 is filed, withhold based on the last Form W-4 the employee provided where exemption from withholding was not claimed. If there is no prior Form W-4 where an exemption was not claimed, withhold at single with no adjustments beginning on February 16, 2022. (Many employers send notifications to employees when they are required to file a new Form W-4. Such notices should be sent to employees no later than January 31, 2022.) Check state and local Form W-4 requirements and repeat the same steps for state and local income taxing authorities where applicable.</p> <p>For more about the federal and state Form W-4 requirements, read our <a href="#">special report</a>.</p>	January 31, 2022; February 16, 2022		
<p>4 <b>Payroll system tax configuration review.</b> Verify taxability configuration tables for all jurisdictions for 2021 and 2022.</p> <ul style="list-style-type: none"> <li>▸ <b>Paid family leave benefits.</b> In recent years, many states have enacted laws requiring that employers provide paid family leave insurance to pay for time off to care for an employee's family members. Federal law has not kept pace with this changing state landscape, leaving the issue of how to tax and report these benefits unclear. Employers will want to confirm their federal taxation and reporting of these benefits. To assist you, read our special report on paid family leave insurance <a href="#">here</a>.</li> </ul>	November 2021- January 2022		

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<ul style="list-style-type: none"> <li>▶ <b>Wellness benefits.</b> Confirm that you are giving the proper tax treatment to benefits provided under wellness plans.</li> <li>▶ <b>Third-party sick pay.</b> Your insurance provider is required to send you an annual statement of payments made and taxes withheld from disability pay in 2021 no later than January 17, 2022. You are likely required to file Forms W-2 with the SSA and provide copies to employees.  For more information on third-party sick pay, read our <a href="#">special report</a>.</li> <li>▶ <b>Domestic partner benefits.</b> Prior to the U.S. Supreme Court decision on June 26, 2015, (<i>Obergefell v. US, No. 14 556, June 26, 2015</i>) that required recognition of marriage for same-gender partners, several states issued civil union or registered domestic partner licenses that extended to same-gender partners the same state tax benefits as married couples. These tax rules continue to apply in some states in 2021. Accordingly, employers need to confirm if domestic partner health benefits are exempt from state income and unemployment insurance tax for some of their employees despite being taxable for federal income tax (FIT), federal income tax withholding (FITW), Social Security/Medicare (FICA) and federal unemployment insurance tax (FUTA) purposes.  For more information, contact an Ernst &amp; Young LLP employment tax professional.</li> <li>▶ <b>Moving expenses.</b> Under the Tax Cuts and Jobs Act (TCJA), reimbursements for moving expenses made to employees or paid directly to third parties on and after January 1, 2018, and through December 31, 2025, are included in wages subject to FIT, FITW, FICA and FUTA. An exception to this provision applies to members of the Armed Forces on active duty who are moving pursuant to a military order and incident to a permanent change of station. (TCJA §11048.)  In <a href="#">IR-2018-190</a> and Notice <a href="#">2018-75</a>, the IRS announced that moving expenses incurred prior to 2018 but reimbursed or paid in 2018 are excluded from wages subject to FIT, FITW, FICA and FUTA if they were excluded from taxable wages prior to the changes made under the TCJA. This rule also applied to payments made to a third party in 2018 for moving services provided prior to 2018.  The IRS explained that for employees to qualify for this exclusion from taxable wages in 2018, they must not have deducted the expenses on their 2017 federal personal income tax return.</li> </ul>	January 17, 2022		

# Ernst & Young LLP's 2021 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p>For active-duty military personnel (and for moving expenses incurred by civilian employees prior to January 1, 2018), IRC §132(g) allows an exclusion from wages for FIT, FITW, FICA and FUTA purposes under IRC §132(a)(6) for moving expenses reimbursed or paid directly by the employer to the extent those moving expenses were deductible under IRC §217. Under IRC §217, the exclusion applies to the cost of moving household goods and personal effects from the former residence to the new residence, the first 30 days of storage for a domestic move, and lodging and mileage expenses incurred during the period of travel from the former residence to the new place of residence. Special rules applied to foreign moves. Nontaxable moving expense reimbursements paid directly to active-duty military employees are reported on Form W-2 in box 12, code P; however, civilian employers do not use box 12, code P for reimbursements paid on and after January 1, 2018. (See <a href="#">the IRS frequently asked questions for moving expenses</a>.)</p> <ul style="list-style-type: none"> <li>▶ <b>Other fringe benefits.</b> Note that a few states are not “coupled” with the federal Internal Revenue Code for specific fringe benefits. For instance, some states did not adopt the change in the tax treatment of moving expense reimbursements that took effect January 1, 2018, and some states do not mirror the IRS monthly tax-free limit for transit benefits of \$270 per month in 2021.</li> <li>▶ For state details on the state treatment of fringe benefits for income tax and unemployment insurance, ask us about our TaxAbility™ research library.</li> </ul> <p>See more about our TaxAbility™ payroll tax configuration analytics <a href="#">here</a>.</p>			
<p><b>5 Accounts payable review.</b> Review accounts payable and general ledger records for unreported taxable items. See Table 3 for a sample list of compensatory items that might have been paid through accounts payable.</p>	November-December 31, 2021		
<p><b>6 General ledger reconciliation and review.</b> Perform general ledger reconciliations before releasing 2021 annual information statements and returns. See Table 3 for a sample list of compensatory items that might be found in a general ledger review.</p>	November-December 2021		
<p><b>7 Payroll bank reconciliation.</b> Perform payroll bank reconciliations through December 31, 2021, including identifying outstanding checks for 2021. Ask for an early cut-off statement if necessary.</p>	November-December 2021		

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p><b>8</b> <b>Gross-up and tax advances.</b> Perform all necessary gross-up calculations and impute all taxable amounts for 2021. Make tax advances when necessary (and when allowed by law) to remedy any withholding shortages resulting from imputed income. Remember that tax advances for 2021 must be repaid by employees no later than April 1, 2022.</p> <p><b>Alert!</b> The IRS modified the instructions in Form 941-X to clarify that prior-year adjustments to federal income tax withholding and the Additional Medicare Tax are not allowed merely because these taxes were paid by the employer in connection with a gross-up. Businesses will need to carefully review their 2021 gross-up calculations prior to December 31, 2021, to avoid federal income tax and Additional Medicare Tax overpayments they cannot recover after the close of the year. (See <a href="#">Form 941-X instructions</a>, page 3.)</p>	December 31, 2021; April 1, 2022		
<p><b>9</b> <b>Check your timing for posting taxable fringes to the payroll system.</b> To prevent late-deposit penalties and other adverse consequences, review the items on your year-end adjustment list to determine if they should have been posted to taxable wages on a periodic or other more frequent basis. Identify ways to mitigate exposures and adjust your procedures for the future accordingly.</p>	December 31, 2021		
<p><b>10</b> <b>2021 Form W-2 distribution.</b> Determine what method will be used to distribute employee copies of the 2021 Forms W-2. If special mailing rates will be used, be certain to file all necessary documents with the U.S. Postal Service. (See <a href="#">T.D. 9114, 69 FR 7567</a> for information on providing Forms W-2 to employees electronically.)</p>	December 31, 2021		
<p><b>11</b> <b>Incentive Stock Option (ISO) and Employee Stock Purchase Plan (ESPP) reporting.</b> The exercise of an ISO in 2021 is required to be reported on Form 3921 and the transfer of shares under an ESPP in 2021 on Form 3922. Both forms are furnished to the employee by January 31, 2022, and filed with the IRS by February 28, 2022 (March 31, 2022, if filed electronically). (See IRS filing instructions <a href="#">here</a>.)</p>	January 31, 2022- March 31, 2022		
<p><b>12</b> <b>Electronic filing requirements.</b> Check federal, state and local electronic tax filing requirements for 2021 and 2022. Register or make an application to remit taxes and returns electronically if the threshold for 2022 is met. (See <a href="#">Table 2</a> for the IRS application deadlines, if applicable.) Also, check federal, state and local electronic tax payment requirements for 2021 and file any required applications to meet electronic filing and payment requirements in 2021. See <a href="#">Table 4</a> for the current state electronic filing requirements for Forms W-2.</p>	November-December 2021		

# Ernst & Young LLP's 2021 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p><b>13 Third-party employment tax service provider verification.</b> Work with your third-party employment tax provider to confirm that returns and information statements will be filed for all applicable jurisdictions and that the third party has reporting agent approval when necessary to file on your behalf.</p> <p>Read our <a href="#">special report</a> about the elements of oversight for third-party payroll service provider arrangements and complete the governance scorecard.</p>	December 31, 2021		
<p><b>14 Form W-2, box 13 pension plan indicator.</b> Coordinate with your benefits administrator to determine when Form W-2, box 13, "Pension Plan," should be checked for each Form W-2 recipient. See page 31 of the 2021 General Instructions for <a href="#">Forms W-2 and W-3</a>.</p>	December 31, 2021		
<p><b>15 Form W-2 reporting of employer-provided group health benefits.</b> Employers that filed 250 or more Forms W-2 in 2020 are required to report the aggregate cost of employer-provided group health benefits on the 2021 Form W-2, box 12, code DD. Verify that the necessary information for each employee is available for Form W-2 reporting purposes.</p> <p>For further details, see the IRS <a href="#">website</a>.</p>	December 31, 2021		
<p><b>16 Check the rules governing employer reimbursements for employee-purchased health insurance.</b> Under the Affordable Care Act (ACA), employers are subject to substantial penalties if they reimburse employees under certain situations for their purchase of individual health insurance policies.</p> <p>For more information see <a href="#">IRS Notice 2013-54</a> and the IRS <a href="#">frequently asked questions</a>.</p>	December 2021		
<p><b>17 Review your independent contractors the same way a governmental auditor would.</b> States are increasingly focused on whether employers have properly classified their workers as independent contractors, frequently asserting that they should be treated as employees.</p> <p>For more information on the federal employment tax standards that apply, see IRS <a href="#">Publication 1779</a>.</p>	December 31, 2021		
<p><b>18 Information reporting for US nonresident alien employees.</b> If you paid wages to US nonresident alien employees in 2021 and they claimed an exemption from federal income tax withholding under a treaty, you will be required to comply with the Form 1042-S reporting requirements. Keep in mind that Form W-2 reporting may also be required for Social Security/Medicare earnings and any state/local taxes that may apply. Both the recipient and IRS copies of Form 1042 are due by March 15, 2022.</p> <p>For more information, see the <a href="#">IRS website</a>.</p>	March 15, 2022		



Top 30 payroll year-end tasks for 2021		Suggested deadline	Your deadline	Completed?
19	<p><b>2021-22 employee notices.</b> Run the reports necessary to comply with all federal and state employee notification requirements and consider others that may be helpful.</p> <p><b>Mandatory</b></p> <ul style="list-style-type: none"><li>▶ <b>The special accounting rule/no federal income tax withholding on personal-use auto</b> – employee notices should be provided by January 31, 2022, if the special accounting rule was used in 2021 or if you will elect not to withhold federal income tax from the value of personal use of company cars in 2022.</li><li>▶ <b>Charitable contributions</b> – you are required to provide employees with a report of the annual total of charitable contributions paid through payroll deduction. Consider using Form W-2, box 14, for this purpose. See <a href="#">IRS Publication 1771</a>.</li><li>▶ <b>Earned Income Tax Credit (EITC)</b> – for federal purposes, Form W-2, Copy B, includes the notice that employers are required to provide to employees concerning their eligibility for the Earned Income Tax Credit. Some states and localities require a separate notification (other than Form W-2, Copy B) and may also impose a different annual deadline for making it available to employees.</li></ul> <p>See more information on the federal EITC <a href="#">here</a>.</p> <p>Have questions about state EITC notice requirements? Send us your questions <a href="#">here</a>.</p> <p><b>Suggested</b></p> <ul style="list-style-type: none"><li>▶ <b>Expiring Form W-4</b> – notify employees who claimed exemption from federal income tax withholding in 2021 that they are required to furnish you with a 2022 Form W-4 by February 15, 2022. Verify state rules concerning withholding allowance certificates claiming exemption and include state expiring information on the same employee notice.</li><li>▶ <b>2022 withholding tax changes</b> – notify employees of any change in the amount of tax they will pay in 2022 for Social Security, Medicare or federal, state and local income tax withholding.</li><li>▶ <b>Additional Medicare Tax reminder</b> – employees with wages in excess of \$200,000 in 2021 should be reminded of their requirement to file with the IRS <a href="#">Form 8959</a>, Additional Medicare Tax.</li><li>▶ <b>Multistate employees</b> – for employees who worked in more than one state, consider providing a detail of the taxable wages that were paid within each work state. This is particularly relevant for employees working in New York because employers are required to report federal taxable wages (Form W-2, box 1) as state taxable wages (Form W-2, box 16).</li></ul> <p>For more information on multi-state payroll tax compliance, see our <a href="#">special report</a>.</p>	<p>January 31, 2022 (unless otherwise noted)</p> <p>January 31, 2022</p>		

# Ernst & Young LLP's 2021 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p><b>20 Federal unemployment insurance (FUTA) fourth-quarter deposit adjustment.</b> If you had employees working in the Virgin Islands, you are subject to a FUTA credit reduction in 2021, and you are subject to a higher FUTA rate for taxable wages paid in this jurisdiction. The additional FUTA tax owed is computed on the 2021 Form 940, and the additional tax payment is due by January 31, 2022.</p> <p>The 2021 Form 940, once available, will be posted <a href="#">here</a>.</p>	January 31, 2022		
<p><b>21 2021 tax payment reconciliation.</b> Prepare all fourth-quarter tax reconciliation(s) prior to making the final tax payment(s) to jurisdictions for the quarter or year. (See page 19 for more information about year-end reconciliation procedures.)</p>	Various		
<p><b>22 Testing Form W-2 files before filing them.</b> The SSA will return Form W-2 files containing certain errors. For this reason, it is important that employers use SSA's <a href="#">AccuWage</a> before filing their returns. Employers using a third-party provider to handle Form W-2 files should require that the third-party provider give them a copy of the AccuWage acceptance report.</p> <p>Some states and localities require test files for first-time electronic filers. Be certain to comply with these requirements and consider submitting test files even if not required to do so.</p>	January 15, 2022		
<p><b>23 2022 payroll processing schedule.</b> Prepare the 2022 payroll processing and tax return filing schedule. For a list of federal holidays, see <a href="#">Table 1</a>.</p>	December 2021		
<p><b>24 Review 2022 employer withholding tax guides.</b> Review IRS Circular E, <a href="#">Publication 15, Employer's Tax Guide</a> and <a href="#">Publication 15-T, Federal Income Tax Withholding Methods</a>, for 2022 and any similar state and local employer tax guides and withholding tables to determine taxability and reporting changes for 2022. Make all taxability, reporting and withholding rate changes for 2022 (including the 2022 exemption amounts for IRS tax levies in Publication 1494).</p> <p>Instructions for computing the amount exempt from a federal tax levy are available in IRS <a href="#">Notice 1439</a>.</p>	December 27, 2021		

Top 30 payroll year-end tasks for 2021		Suggested deadline	Your deadline	Completed?
25	<p><b>2022 tax rate and wage base updates.</b> Input 2022 Social Security, state unemployment, state disability and other similar taxable wage base and tax rate information.</p> <p>If using a third-party provider, test the third party's system requirements before the first live payroll in 2022.</p> <p>State unemployment insurance (SUI) tax rates should be verified within the protest period. Since many states issue their 2022 SUI rates in November and December, this is an important year-end item.</p> <p>It is also important to verify in March 2022 that the correct SUI rate and wage base are reflected on the first-quarter 2022 quarterly SUI returns (generally due by April 30, 2022).</p> <p>Don't forget that for 2021 and future years, you may be required to pay additional FUTA taxes because of states that have an outstanding FUTA loan balance.</p> <p>Read more about the impact of COVID-19 on 2022 and future SUI tax costs <a href="#">here</a>.</p> <p>For the 2021 employment tax rates and limits, see our <a href="#">special report</a>. The 2022 report, once available, will be published <a href="#">here</a>.</p>	December 31, 2021; March 31, 2022		
26	<p><b>Additional payroll period in 2021 or 2022.</b> If you had an additional payroll period in 2021 or will have one in 2022 (i.e., 27 rather than 26, or 53 rather than 52), you may need to adjust your federal, state and local income tax withholding calculations. You will also need to determine how employee payroll deductions might change for the additional payroll period.</p> <p>For more information on the additional payroll period, see our special report <a href="#">here</a>.</p>	December 2021		
27	<p><b>2022 payroll deductions.</b> Input 2022 payroll deduction information pursuant to benefit open enrollment data or other deductions that are subject to annual revision.</p> <p>Stop all payroll deductions that were authorized only through 2021.</p> <p>Test to confirm that 2022 payroll deductions are accurately updated.</p>	Prior to first payroll run for 2022		
28	<p><b>Purge 2021 expired records.</b> Purge the active employee master file of all employees terminated in 2021.</p>	January 1, 2022		
29	<p><b>Duplicate and returned Forms W-2.</b> Instruct the mailroom on where to send returned Forms W-2 for tax year 2021. Verify that all employee requests for duplicate 2021 Forms W-2 are timely provided.</p>	January 3, 2022; April 15, 2022 (federal due date for 2021 Forms 1040)		

# Ernst & Young LLP's 2021 payroll year-end checklist

Continued

Top 30 payroll year-end tasks for 2021	Suggested deadline	Your deadline	Completed?
<p><b>30 Federal employment tax considerations for COVID-19.</b> Federal legislation was enacted to provide employers with various forms of employment tax relief and tax credits in connection with COVID-19. Employers will need to consider these provisions in preparing their Forms 941 and W-2 for 2021.</p> <ul style="list-style-type: none"> <li>▶ Employee Retention Credit. See the IRS <a href="#">FAQs</a>.</li> <li>▶ Tax credit for paid leave under American Rescue Plan Act of 2021 after March 31, 2021. See the IRS <a href="#">FAQs</a>.</li> <li>▶ Tax credit for paid leave under the Families First Coronavirus Response Act for leave prior to April 1, 2021. See the IRS <a href="#">FAQs</a>.</li> <li>▶ Form W-2 reporting for COVID-19 paid leave. See our <a href="#">tax alert</a>.</li> <li>▶ Deferral of employment tax deposits through December 31, 2020. See the IRS <a href="#">FAQs</a>.</li> <li>▶ Leave sharing plans. See the IRS <a href="#">FAQs</a>.</li> </ul>	December 15, 2021		



# Table 1 – 2022 federal holidays

When planning your 2022 payroll processing and employment tax schedule, refer to the list of federal holidays below. (*U.S. Office of Personnel Management, 2022 Holiday Schedule*)

New Year's Day	Friday, December 31, 2021
Martin Luther King Jr. Day	Monday, January 17, 2022
Presidents' Day*	Monday, February 21, 2022
Memorial Day	Monday, May 30, 2022
Juneteenth National Independence Day	Monday, June 20, 2022
Independence Day	Monday, July 4, 2022
Labor Day	Monday, September 5, 2022
Columbus Day	Monday, October 10, 2022
Veterans Day	Friday, November 11, 2022
Thanksgiving Day	Thursday, November 24, 2022
Christmas Day	Monday, December 26, 2022

Note: Holidays that fall on Saturday are observed the previous Friday, and those that fall on Sunday are observed the following Monday. (See 5 U.S.C. 6103(b).)

\*Also known as Washington's Birthday.



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# Filing electronically for tax year 2021

For a schedule of key federal filing due dates for tax year 2021, see Table 2.

Businesses with 250 or more Form W-2, W-2c or IRS information returns or statements (e.g., Forms 1094, 1095, 1099, 1042-S, 8027) must file these forms electronically with the SSA or IRS. Note that the threshold for filing Forms W-2 and 1099 electronically is lowered to 100 or more if proposed [REG-102951-16](#) is finalized before the filing due date.

Remember that a penalty applies when a business files returns on paper that are required to be filed electronically.

Specifications for preparing Forms W-2 electronically for tax year 2021 are found in the SSA's [Publication 42-007, Specifications for Filing Forms W-2 Electronically \(EFW2\)](#).

For returns or statements filed with the IRS, specifications for electronic filing are available in IRS Publication [1220, Specifications for Electronic Filing of Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G](#).

## First-time electronic filers with the SSA

Filing electronically with the SSA is easy. Applications are not required. Instead, users register with the SSA by following the instructions within the Business Services Online (BSO) section [here](#). Note that electronic Forms W-2 also may be verified using AccuWage before they are submitted.

AccuWage 2021 is available through the SSA's [website](#).

### SSA password maintenance

The SSA suggests that users avoid the year-end rush by checking their access and updating their passwords now in preparation for the 2021 Form W-2 filing season.

Information is available [here](#).

## First-time electronic filers with the IRS

### ► The IRS requires applications for first-time filers.

Unlike the SSA, the IRS Information Reporting Branch (IRB) requires that before submitting the first electronic file, you request authorization to file electronically by submitting an application for a Transmitter Control Code by filing online, [Information Return \(IR\) Application for Transmitter Control Code \(TCC\)](#). (This requirement applies even if you are required to file electronically.) You are not allowed to begin filing electronically until the IRS has approved your application.

The application for a TCC must be filed by November 1 of the year before information return(s) are due to ensure you're ready to electronically file. The IRS also states that applicants should allow 45 days for processing.

- **Sending test files to the IRS.** Filers are not required to submit a test file unless they wish to participate in the Combined Federal State Filing program; however, the submission of a test file is encouraged for all new electronic filers to test hardware and software.

Keep in mind when planning your year-end schedule that the IRS FIRE system will be down from 6 p.m. ET December 3, 2021, through January 4, 2022, for annual updates.

For more information, see IRS Publication [1220](#).

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## Getting extensions on the SSA and IRS filing deadline

If you will not be able to meet the filing deadline for sending your 2021 forms to the IRS or SSA (e.g., a fire or other disaster), a 30-day extension can be obtained by filing Form [8809](#), *Application for Extension of Time to File Information Returns*, with the IRS (not the SSA). There is no longer an automatic 30-day extension for filing Forms W-2 or Form 1099-MISC reporting nonemployee compensation. Instead, only one 30-day extension for filing Form W-2 will be granted by the IRS and only if it can be shown that extenuating circumstances of the nature shown below are preventing you from filing by the January 31 due date.

In TD [9838](#), the IRS states the following reasons it will accept in approving the non-automatic 30-day extension:

- ▶ The business suffered a catastrophic event in a Federally Declared Disaster Area that made the business unable to resume operations or made necessary records unavailable.
- ▶ The business suffered a fire, casualty or natural disaster that affected the operation of the business.
- ▶ The death, serious illness or unavoidable absence of the individual responsible for filing the information returns affected the operation of the business.
- ▶ The information return is being filed for the first year the business was established.
- ▶ The filer did not receive timely data on a third-party payee statement. This third-party payee statement might be a Schedule K-1, *Partner's Share of Current Year Income, Deductions, Credits and Other Items*, Form 1042 S, or the statement of sick pay required under IRS Reg. §31.6051-3(a)(1).

Additionally, the extension will be granted even if the filer receives the third-party payee statement by the statutory furnishing deadline, provided that the filer did not receive the statement in time to prepare an accurate information return.

The Form 8809 must be signed by the filer/transmitter or a person who is duly authorized to sign a return.

For other forms, one automatic 30-day extension is granted by filing Form 8809, and no signature is required. An additional second extension is allowed only if specifically granted by the IRS and only if you can show that extenuating circumstances are preventing you from filing by the first extended due date. The second extension request must be signed by the filer/transmitter or a person who is duly authorized to sign a return.

For the extension request to be granted, it must be postmarked, transmitted or completed online by the due date of the return.

If you are requesting an extension to file several types of forms, you may use one Form 8809, but you must file it by the earliest form due date. For instance, if you are filing a Form 8809 for a return due on March 15 and for another return due on March 31, the Form 8809 is due on March 15.

Note that extension requests for tax year 2021 returns should not be submitted prior to January 1, 2022.

Form 8809 may be used for the following forms and can be filed electronically [here](#).

- |          |          |            |            |
|----------|----------|------------|------------|
| ▶ W-2    | ▶ 1095-B | ▶ 1099-NEC | ▶ 5498     |
| ▶ W-2G   | ▶ 1097   | ▶ 1099-QA  | ▶ 5498-ESA |
| ▶ 1042-S | ▶ 1098   | ▶ 3921     | ▶ 5498-QA  |
| ▶ 1094-C | ▶ 1099   | ▶ 3922     | ▶ 5498-SA  |
| ▶ 1095-C |          |            | ▶ 8027     |

Note that Form 8809 cannot be used to request an extension on the time to give employees or payees copies of their information returns (e.g., Form W-2, Form 1099). Instead, a letter of request must be submitted to the IRS. Extensions on the time to provide recipient copies are rare.

For more information, see IRS Publication [1220](#).

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# Filing electronically for tax year 2021

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## Obtaining a waiver from filing electronically with SSA or IRS

If for any reason you will not be able to submit your Forms W-2 to the SSA or information returns to the IRS electronically for tax year 2021 and you are required to do so, a one-year waiver may be granted for hardship cases. A waiver cannot be requested for more than one year at a time.

A onetime waiver from the electronic filing requirement can be obtained by filing Form [8508](#), *Request for Waiver From Filing Information Returns Electronically*, with the IRS (not the SSA).

By obtaining a waiver from the IRS, you will not be subject to penalties for failing to meet the electronic filing requirements.

The IRS encourages businesses to file Form 8508 at least 45 days before the due date of the electronic filing. The IRS does not process waiver requests until January 1 of the calendar year the returns are due.

Besides Form W-2, Form 8508 is used to request waivers from filing the following returns electronically: 1042-S, 1094-C/1095-C, 1095 B, 1097-BTC, 1098, 1098 C, 1098 E, 1098-T, 1099-A, 1099 B, 1099-C, 1099-CAP, 1099-DIV, 1099 G, 1099 INT, 1099-K, 1099-LTC, 1099-MISC, 1099-NEC, 1099 OID, 1099-PATR, 1099-Q, 1099 R, 1099-S, 1099-SA, 3921, 3922, 5498, 5498-ESA, 5498-SA, 8027, W-2AS, W-2G, W-2GU, W-2PR and W-2VI.

All requests for a waiver should be sent to the following address:

Internal Revenue Service  
Attn: Extension of Time Coordinator  
240 Murall Drive Mail Stop 4360  
Kearneysville, WV 25430

By fax:  
+1 877 477 0572 (304 579 4105, international)



## Table 2 – Federal electronic filing due dates for 2021

Form	Electronic system used for reporting*	Electronic filing due date and deadline to request first 30-day extension (Form 8809)*	Deadline to submit request for waiver from filing electronically (Form 8508)*
Form 1042-S	IRS FIRE	March 15, 2022	March 15, 2022
Forms 1094-C, 1095-C, 1095-B, 1099-R, 3921, 3922 and W-2G	IRS FIRE	March 31, 2022	March 31, 2022
Form 1099-MISC	IRS FIRE	March 31, 2022	March 31, 2022
Form 1099-NEC	IRS FIRE	January 31, 2022	January 31, 2022
Form 8027	IRS FIRE	March 31, 2022	March 31, 2022
Forms 5498, 5498 SA and 5498 ESA	IRS FIRE	May 31, 2022	May 31, 2022
Form W-2	SSA BSO	January 31, 2022	January 31, 2022

\*The SSA will begin accepting 2021 electronic Form W-2 file uploads on December 7, 2021. The IRS FIRE system will begin accepting tax year 2021 file uploads on January 7, 2022

States are making greater use of the internet and other electronic reporting options, with some having changed their Form W-2 electronic reporting requirements for Forms W-2. See our state survey in [Table 4](#).



## Table 3 – Special wage payments: sample list

The chart below is a sample list of reportable earnings that depend on data inputs outside of the payroll processing system.

Creating a list of such special wage payments, including the persons or third parties responsible for providing the data, is an important element of the payroll year-end checklist. We have indicated in a column below where third parties are frequently relied on to provide information necessary to meet tax and reporting requirements.

W-2 reportable item	Employer	Third party
401(k) – W-2 box 13 indicator		✓
Adoption assistance	✓	✓
Athletic club memberships	✓	✓
Award – length of service	✓	✓
Award – recognition	✓	✓
Award – safety	✓	✓
Business expense – non-accountable	✓	
Club memberships	✓	
Credit card – non-accountable business expense reimbursements		✓
Deferred compensation – distributions	✓	✓
Deferred compensation – earnings	✓	✓
Dependent care on-site facility	✓	✓
Dependent care flexible spending	✓	✓
Dependent care assistance - backup day care	✓	✓
Dining hall – executive	✓	
Disability pay – CA		✓
Disability pay – HI		✓
Disability pay – NJ		✓
Disability pay – NY		✓
Disability pay – private fund		✓
Disability pay – PR		✓
Disability pay – state offset	✓	✓
Discounts – merchandise	✓	
Discounts – services	✓	
Educational assistance	✓	✓
Expatriate totalization	✓	✓

W-2 reportable item	Employer	Third party
Expatriate taxes		✓
Expatriate wage update	✓	✓
Gift cards	✓	✓
Gifts – noncash	✓	
Gross-up – federal tax	✓	✓
Gross-up – local nonresident tax	✓	✓
Gross-up – state nonresident tax	✓	✓
Insurance – annuity		✓
Jury duty – offset	✓	
Living expenses	✓	
Loans – forgiven	✓	
Loans – interest income	✓	✓
Medical debit card		✓
Noncash award	✓	✓
Parking	✓	✓
Relocation – domestic	✓	✓
Relocation – foreign	✓	✓
Paid family leave benefits from private insurance fund or self-insured plan	✓	✓
Scholarships	✓	✓
Settlement awards	✓	✓
State disability offset	✓	✓
Stock – W-2 box 12 indicators		✓
Stock – Employee Stock Purchase Plan (ESPP)		✓
Stock – Incentive Stock Option (ISO)		✓
Stock – Nonqualified		✓
Stock – Restricted		✓
Transit benefits	✓	✓
Workers' compensation offset	✓	✓

# 2021 state Form W-2 requirements

The following charts reflect our state survey results as of November 2021.

Should the IRS finalize regulations that reduce the electronic filing threshold for federal Forms W-2 to 100 or more for tax year 2021, the filing threshold will likely decrease for those states below that conform to the IRS requirements.

**Table 4 – State Form W-2 filing method requirements\***

(Note that changes since November 2020 are highlighted in yellow.)

State	State Code FIPS <sup>(1)</sup>	When electronic filing is required*	Filing deadline <sup>(2)</sup>	Due date for employee copy
Alabama (AL)	01	25 or more	1/31	1/31
Alaska (AK)	02	No personal income tax	N/A	N/A
Arizona (AZ)	04	All employers	1/31	1/31
Arkansas (AR)	05	250 or more	1/31	1/31
California (CA)	06	Forms W-2 are not filed with the state	N/A	1/31
Colorado (CO)	08	250 or more	1/31	1/31
Connecticut (CT)	09	25 or more	1/31	1/31
Delaware (DE)	10	If required by IRS	1/31	1/31
District of Columbia (DC)	11	25 or more	1/31	1/31
Florida (FL)	12	No personal income tax	N/A	N/A
Georgia (GA)	13	If required to file Georgia withholding tax returns electronically, or if required by IRS	1/31	1/31
Hawaii (HI)	15	All employers required to remit Hawaii withholding tax returns electronically (annual withholding liability exceeds \$40,000)	2/28	1/31
Idaho (ID)	16	50 or more, or if required by IRS	1/31	1/31
Illinois (IL)	17	All employers	1/31	1/31
Indiana (IN)	18	25 or more	1/31	1/31
Iowa (IA)	19	All employers if Iowa income tax withheld	2/15	1/31
Kansas (KS)	20	51 or more	1/31	1/31
Kentucky (KY)	21	26 or more	1/31	1/31
Louisiana (LA)	22	50 or more	1/31	1/31
Maine (ME)	23	250 or more (proposed rule would require electronic filing if required by the IRS)	1/31	1/31
Maryland (MD)	24	25 or more	1/31	1/31
Massachusetts (MA)	25	50 or more	1/31	1/31
Michigan (MI)	26	If required by IRS	1/31	1/31
Minnesota (MN)	27	10 or more	1/31	1/31
Mississippi (MS)	28	25 or more	1/31	1/31
Missouri (MO)	29	250 or more	1/31	1/31

# 2021 state Form W-2 requirements

Continued

State	State Code FIPS <sup>(1)</sup>	When electronic filing is required*	Filing deadline <sup>(2)</sup>	Due date for employee copy
Montana (MT)	30	Optional	1/31	1/31
Nebraska (NE)	31	50 or more	1/31	1/31
Nevada (NV)	32	N/A	N/A	N/A
New Hampshire (NH)	33	N/A	N/A	N/A
New Jersey (NJ)	34	All employers	2/15	2/15
New Mexico (NM)	35	25 or more	1/31	1/31
New York (NY)	36	Forms W-2 are not filed with the state	N/A	1/31
North Carolina (NC)	37	All employers	1/31	1/31
North Dakota (ND)	38	10 or more	1/31	1/31
Ohio (OH)	39	10 or more	2/28	1/31
Oklahoma (OK)	40	All employers	1/31	1/31
Oregon (OR)	41	All employers	1/31	1/31
Pennsylvania (PA)	42	10 or more	1/31	1/31
Rhode Island (RI)	44	If required by IRS and has a minimum of 25 Rhode Island employees	1/31	1/31
South Carolina (SC)	45	If required by the IRS	1/31	1/31
South Dakota (SD)	46	No personal income tax	N/A	N/A
Tennessee (TN)	47	No personal income tax	N/A	N/A
Texas (TX)	48	No personal income tax	N/A	N/A
Utah (UT)	49	All employers	1/31	1/31
Vermont (VT)	50	25 or more	1/31	1/31
Virginia (VA)	51	All employers	1/31	1/31
Washington (WA)	53	No personal income tax	N/A	N/A
West Virginia (WV)	54	25 or more	1/31	1/31
Wisconsin (WI)	55	10 or more	1/31	1/31
Wyoming (WY)	56	No personal income tax	N/A	

## Forms W-2 reference chart

\*Refers to number of Forms W-2

(1) Some software vendors use unique codes rather than the "FIPS 5-2" (e.g., Dun and Bradstreet (MSA)). Refer to SSA Publication No. ICN (EF-W2).

(2) This option is being phased out by the state.

Much of this information was obtained by Ernst & Young LLP during informal telephone, website or email surveys with state governmental agencies. Although surveys are useful in determining how government departments currently treat an issue, answers and positions derived from such surveys are not binding upon the state, cannot be cited as precedent, and may change over time and hence cannot be relied upon.

# Year-end employment tax reporting compliance

Particularly for the multi-state employer, preparing for annual employment tax reporting is a multi-step process that includes the following:

## 1. Create a list of jurisdictions requiring returns and information statements (e.g., Forms W-2, 1099, 1042-S)

Whether employment taxes are processed in-house or by a third-party provider, a list should be created of the jurisdictions and the returns and information statements that each requires. In our experience, reviewing employment tax processes, neglecting to report to all jurisdictions (including those outside the US, where applicable) is one of the most common errors that multi-jurisdictional employers make. To make your list of taxing jurisdictions as accurate and comprehensive as possible, a report from the employee master file should be created of both the work and resident states and localities that have been established for each employee. If work state and locality information is also carried in the timekeeping system (i.e., employees typically work in multiple jurisdictions within a single payroll period), a similar report should be run from this source. If you are uncertain of a jurisdiction's withholding, employment tax and reporting requirements, check with the state and local taxing authorities, your employer's accounting firm or other qualified employment tax consultant.

## 2. Verify the form and format of returns and information statements

Each jurisdiction imposes different reporting requirements. Some jurisdictions, for instance, require that Forms W-2, annual state income tax reconciliations or state unemployment insurance returns be filed magnetically or electronically if the employees or forms exceed a certain number. Under the federal requirements, for instance, Forms W-2 (Forms W-2c) over 249 in the calendar year must be filed electronically. (State rules vary. See [Table 4](#) for our 2021 survey of state electronic Form W-2 filing requirements.)

If the employer is relying on a third party to file its employment tax returns and information statements for the first time, care must be taken that all the necessary steps have been completed to establish the third party as a reporting agent. For example, you and the third party must have obtained a User ID and PIN where required, as well as any other information necessary to meet the reporting requirements and you must have confirmed that file submissions were posted accurately. (Note that employers using a third-party provider can obtain a User ID and PIN to verify Form W-2 transmissions through the SSA's BSO. Go [here](#) for more information.)

Filing format and record layout specifications may also change from year to year and should be reviewed carefully before processing year-end returns and information statements.

Reference these publications for tax year 2021:

- ▶ IRS Publication 1220, *Specifications for Filing Form 1097, 1098, 1099, 3921, 3922, 5498, and W2-G Electronically* [here](#)
- ▶ SSA Publication 42-007 (EFW2) [here](#)
- ▶ IRS Publication 1187, *Specifications for Filing Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, Electronically* [here](#)
- ▶ IRS Publication 1239, *Specifications for Filing Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, Electronically* [here](#)
- ▶ For guidelines on electronic filing of Affordable Care Act information returns, refer to Publication [5165](#), *Guide for Electronically Filing Affordable Care Act (ACA) Information Returns for Software Developers and Transmitters*

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# Year-end employment tax reporting compliance

Continued



### 3. Verify that all laser-printed forms were approved by the SSA

If you plan to use laser-printed Forms W-2/W-2c from a third-party source (e.g., software or service provider), ask the supplier for a copy of its dated approval notice from the SSA. For more information, see:

IRS Publication 1141, *General Rules and Specifications for Substitute Forms W-2 and W-3* [here](#).

### 4. Test magnetic media and electronic files

Particularly when a jurisdiction's form or format for reporting has changed, it is prudent to perform tests validating that your files match the jurisdiction's reporting requirements. Discovering errors while printing or filing the actual returns and information statements not only creates delays in filing but also can expose you to penalties and other additional costs. For Form W-2 reporting purposes, the SSA makes software available that allows you to edit Form W-2 files before they are submitted electronically.

AccuWage 2021 is available through the SSA's website [here](#).

### 5. Verify taxability compliance

Taxability compliance can be verified by printing reports from the payroll system's tax configuration tables. These configuration tables carry the information necessary for including and excluding various wage payments and fringe benefits from taxable wages and the tax computation. Verifying that amounts are reported on the appropriate lines or boxes of returns or statements and that the correct codes are used, where applicable, is a vital element of year end compliance testing.

Sample configuration tables are shown on the following page.

See our 2021 fringe benefits reporting chart [here](#).

## 2021 sample federal employment tax configuration table – pay codes

Benefit	Federal income tax (Form W-2, box 1)	Social Security wages (Form W-2, box 3)	Medicare wages (Form W-2, box 5)	Form W-2, box 12	Federal unemployment insurance taxable (FUTA, Form 940)
Business expense accountable plan	No	No	No	N/A	No
Dependent care assistance	Yes – excess over \$5,000	Yes – excess over \$5,000	Yes – excess over \$5,000	N/A, but report in box 10	Yes – excess over \$5,000
Educational assistance, job-related	No	No	No	N/A	No
Educational assistance, non-job-related	Yes – excess over \$5,250	Yes – excess over \$5,250	Yes – excess over \$5,250	N/A	Yes – excess over \$5,250

## 2021 sample federal employment tax configuration table – deduction codes

Benefit	Federal income tax (Form W-2, box 1)	Social Security wages (Form W-2, box 3)	Medicare wages (Form W-2, box 5)	Form W-2, box 12	Federal unemployment insurance taxable (FUTA, Form 940)
Section 125, Dependent care assistance pretax	Reduce up to \$5,000	Reduce up to \$5,000	Reduce up to \$5,000	N/A, but report in box 10	Reduce up to \$5,000
Section 125, Health insurance premium pretax	Reduce 100%	Reduce 100%	Reduce 100%	Considered in arriving at amount in code DD	Reduce 100%
401(k) pretax contribution	Reduce up to \$19,500	No change	No change	Code D	No change

### When it comes to pay and deduction codes, we can help.

With Ernst & Young LLP's TaxAbility™ we can streamline the process for confirming payroll system tax configurations and assist you with gathering the documents you need for your tax history file. TaxAbility™ has an intuitive library of the income tax and unemployment insurance coverage rules for over 160 common pay and deduction types and a mechanism for automatically matching your payroll system date against our research to quickly identify where gaps may exist.

Learn more about TaxAbility™ [here](#).

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# Year-end employment tax reporting compliance

*Continued*

## 6. Reconciliation

Whether your payroll is processed in-house or by a third-party provider, reconciliation is vital to accuracy and internal control. Keep in mind that reconciling does not necessarily mean that there are no differences or adjustments but rather that differences and adjustments have a reasonable explanation and are well-documented.

There are four primary types of year-end reconciliation:

### ▸ Wage and tax

The wage and tax reconciliation should include a logical and chronological reconciliation of federal, state and local wage and tax information:

- **Chronological.** The purpose of a chronological reconciliation is to verify that wage and tax information has properly accumulated from each payroll period to the quarter and, finally, to the annual totals.
- **Logical.** The purpose of the logical reconciliation is to compare the wage and tax information of different jurisdictions to confirm that any differences in amounts are logically explained by variations in the tax rules. For instance, employers that provide taxable excess group-term life insurance coverage should have a difference between FICA and federal unemployment covered wages (taxable group-term life is excluded from federal unemployment insurance wages but is included in FICA wages). A similar reconciliation should be performed that compares federal wages with the taxable wages reported to each state and local taxing jurisdiction.

### ▸ Bank statement

A bank reconciliation is vital to verifying that checks, including voids and stop payments, were properly posted to the payroll system throughout the year and that outstanding checks are investigated and properly dealt with (keeping in mind the unclaimed-property rules of the applicable state) prior to preparing the 2021 returns and information statements. Failure to perform a bank reconciliation prior to filing employment tax returns and issuing information statements exposes an employer to the risk of reporting incorrect wages and paying or withholding an incorrect amount of tax. These errors

can result in time-consuming corrections to Forms W-2 and other information returns and statements, creating a potential for interest and penalty assessments.

### ▸ Accounts payable and third-party payments

The payroll system is not the only door through which wages and fringe benefits enter. All too frequently, expense reports and other business expenses, such as payments made on behalf of employees for educational or relocation expenses, are initially entered into the accounts payable system. Absent an automated interface between accounts payable and payroll, which is rare in today's technological environment, a recurring analysis should be made of accounts payable transactions to pinpoint items potentially reportable or subject to employment tax.

An accounts payable reconciliation of this type includes, for example, a review of expense reports and petty cash or impressed funds; the identification of non-accountable business expense reimbursements and taxable payments made to individual employees or former employees, relocation providers, stockbrokers, life insurance companies, and airlines and travel agents; and an accounting of business and personal use of company vehicles, including cars and airplanes.

See [Table 3](#) for a sample list of benefits and other compensation that might be paid through accounts payable or by a third-party service provider.

### ▸ General ledger

A general ledger reconciliation is routinely necessary to help confirm that the employer's financial statements accurately reflect the payroll transactions of the business. However, at year-end, the general ledger reconciliation is also vital to confirming that wages are correctly reported and that tax liabilities and payments are stated accurately. General ledger totals of wages, tax expenses and tax liabilities should correspond to the amounts reported to each of the taxing jurisdictions.

See [Table 3](#) for a sample list of special wage payments and other compensation that might be paid through accounts payable or by a third-party service provider.

Learn more about TaxAbility™ [here](#).



# TaxAbility™

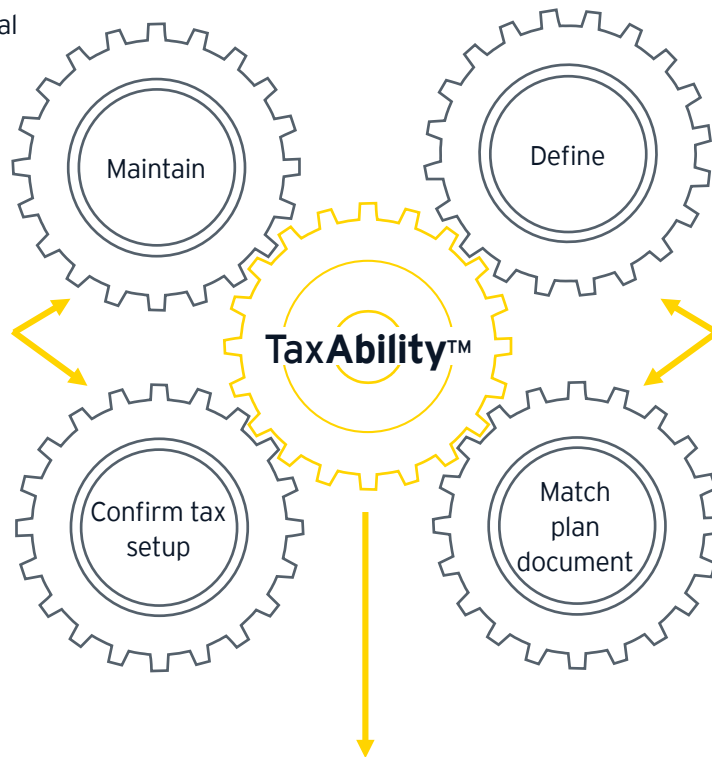
Payroll research innovated.

With TaxAbility™, we can help you to streamline the process of reviewing tax configuration settings for your earnings and deduction codes. Our research library contains fully sourced information for federal, state and local taxes for over 150 common earnings and deduction types. Learn more about TaxAbility™ in our [brochure](#).

- ▶ Refer to your **TaxAbility™** portal throughout the year for tax rules, plan documents and key information to support your tax configuration settings.

- ▶ Access white papers and other thought leadership from your **TaxAbility™** portal for updates and insights on payroll tax and reporting rules.

- ▶ An exception report is provided showing pay and deduction code settings that may be incorrect.
- ▶ Pay codes are verified for proper supplemental wage indicators.
- ▶ Special Form W-2 reporting information, if applicable, is provided for your pay and deduction codes.



- ▶ Align your pay and deduction codes to our standardized list of compensation types configured to comply with tax agency sources.

- ▶ Our compensation and benefits professionals can team to provide insights on plan design and operation compliance.

- ▶ Upload plan documents to your TaxAbility™ portal for hyperlinking to your pay and deduction codes.
- ▶ We work with you to identify those plans impacted by tax reform and the changes required; tax configuration schemes are then matched to your final plan documents to confirm they are correct.

TaxAbility™ documents are housed within our secure network.

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SCORE No. 07828-191US  
CSG No. 2111-3901711  
ED None


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