



Helping Clients Set Up Their Remote Employees

Presented by
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A pioneer in the online legal document filing space since 1997, Nellie has helped more than half a million small businesses and licensed professionals start and maintain companies across the United States, most recently through her Inc.5000 recognized company, CorpNet. She closely follows trends in the industry and shares her wealth of knowledge across various CPA and small business communities, establishing Nellie as one of the most prominent influential experts on business startup and compliance matters.



Today's Agenda

Many businesses have team members across state lines, and you may have clients with remote employees in other states. Payroll can get confusing and tricky in those situations! Here are some considerations employers should think about when understanding payroll requirements for remote workers.

In this webinar, we'll review:

- Review considerations when hiring remote employees out of state
- Discuss payroll setup for businesses with remote teams
- Review the steps to take to get everyone set up

Considerations When Hiring Remote Employees Out of State



Typical Employment-related Taxes for Remote Employees

Essentially, employers must withhold and/or pay the same types of taxes for out-of-state employees as they do for in-state workers.

- Federal income tax
- FICA (Social Security and Medicare)
- FUTA (Federal Unemployment)
- State income tax
- SUI – a.k.a. SUTA (State Unemployment Insurance)
- Local income tax

State's Payroll Laws an Employer Must Follow

- When an employee doesn't live in the same state as their employer, the payroll taxes of the jurisdiction where the employee lives and works apply.
- So, if an employer has a remote employee across state lines, it must register to report and pay payroll taxes in the employee's state.
- For example, if ABC Flooring Solutions in Alabama hires a remote employee in Georgia, the company must register for payroll taxes in Georgia.
- Keep in mind that in addition to state employment taxes, some local governments may have payroll tax laws, too.

When a Business Needs to Foreign Qualify

- Besides registering for payroll taxes, an employer might also have to file for foreign qualification in the state where a remote employee lives and works.
- Foreign qualification means the company is registered as a foreign entity in a state beyond its home (domicile) state (where it filed its formation documents).
- The requirement to foreign qualify depends on whether the employer has nexus (an economic or physical presence) in the employee's state.
- If a company has nexus and must foreign qualify, it must then comply with the business compliance requirements in that state.
- Examples: Obtaining and renewing licenses and permits, filing annual reports, paying state income and sales tax, etc.

Determining if an Employer has Nexus in Other States

- Economic nexus may occur when a company generates revenue in a state (which can occur even if no physical office or employee exists there).
- States' rules vary for what constitutes economic nexus, but generally, these two methods determine whether it exists:
 - **Cost of Performance Sourcing** – Where the most cost/labor is generated to produce the revenue, and
 - **Market-Based Sourcing** – Where the benefit of the product/service is received.
- Many states have thresholds set for when economic nexus is established. Some determine a company has nexus upon reaching revenues that exceed a specific dollar amount or a specific number of sales transactions.

Nexus Continued...

- Physical nexus can mean an employee was hired in a state to generate revenue, or the employer has an office, warehouse, or store in the state.
- Nexus rules vary by state, so it's important that businesses research, understand, and comply with the laws in any state where they've hired remote employees.

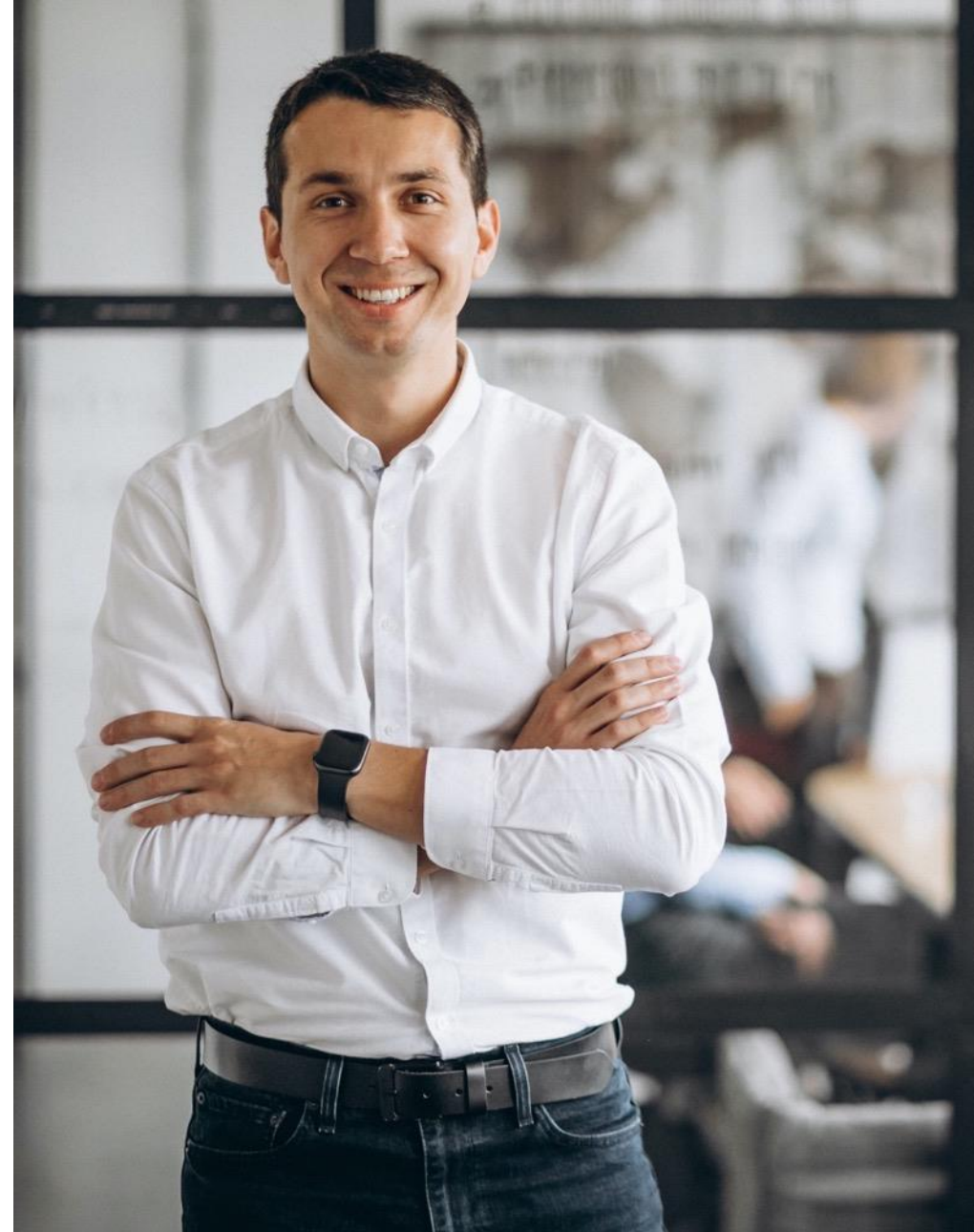
Requirements for Employers That Don't Have a State-Registered Business

- Both sole proprietorships and general partnerships can hire remote employees in other states.
- Just like LLCs, corporations, and other entities, they must complete payroll registration in any state where they have remote employees.
- However, the key point is that they do not have to foreign qualify even if they meet a state's nexus criteria.
- Sole proprietors and general partnerships are considered individuals, not legal business entities. No foreign qualification requirements exist to expand them into other states.
- While this may seem idyllic in some ways, it comes with a lot of risks.

Opportunities Leads to Added Complexity

- Employers must register for payroll in the states where their remote employees work.
- Depending on the state where your client's business is domiciled, payroll taxes in a remote employee's state might be more or less than what they pay in their home state.
- If your business client has nexus in and must foreign qualify their business in the employee's state, they will bear the cost of the foreign qualification filing fee plus possible business license application fees and other costs.

Payroll Set Up for Businesses With Remote Teams



Payroll Tax Overview

- In the United States, tracking, reporting, and paying payroll taxes are required legally to hire and pay employees.
- Some taxes must be withheld from employees' paychecks, and the employer must pay some.
- Businesses must register for the appropriate payroll tax accounts at the state and federal levels (and sometimes the local level if there is a local withholding tax) to process employee payroll and file returns.
- The rules and requirements vary by state, but generally, payroll taxes might include Federal Income Tax, State Income Tax, Local Income Tax , FUTA, SUI, Social Security Tax, and Medicare Tax.

Tax	Description	Government	Paid By
Income Tax Withholding	Taxes withheld from employee pay for federal income taxes owed by the employees. The amount is determined by the employee's W-4.	Federal & State	Employee
FICA Tax	Social security and Medicare taxes, called FICA (Federal Insurance Contributions Act), are shared between employees and employers.	Federal	Both
Additional Medicare Tax	An employer must withhold part of social security and Medicare taxes from employees' wages. The employer also pays a matching amount.	Federal	Employee
FUTA Tax	The Federal Unemployment Tax Act (FUTA) provides for payments of unemployment compensation to workers who have lost their jobs.	Federal	Employer
Self-Employment Tax	Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves.	Federal	Employee
Unemployment Insurance Tax	State unemployment instance (SUI) tax is similar to FUTA, but controlled at the state level. Amounts, requirements, and ownership vary by state.	State	Employer
Disability Tax or Insurance	Disability tax (or insurance) is controlled at the state level. Amounts, requirements, and ownership vary by state.	State	Employer
Worker's Compensation Tax	Provides temporary benefit payments to workers for non-work-related illness, injury, or pregnancy. Varies by state.	State	Employer
State and Local Income Tax	State income tax (SIT) and local taxes varied by state, county, or city.	State & Local	Employee

State Payroll Tax Accounts

State Income Tax (SIT):

- SIT is a required tax applied to an employee's wages.
- Small business owners are responsible for deducting SIT from an employee's gross wages and submitting this tax to the state's tax agency.
- All states require SIT withholdings except for Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

State Unemployment Insurance (SUI):

- If you hire employees, you are required to pay SUI on their wages.
- The SUI program offers short-term unemployment benefits to eligible workers who are unemployed because they have lost or left their jobs. SUI eligibility and benefits are determined by the individual state's laws.
- Employer taxes associated with SUI rates vary by state.

State	SIT	SUI	New Employer Rate
Alaska		Quarterly	1.86%
Alabama	Monthly, Quarterly	Quarterly	2.7%
Arkansas	Monthly	Quarterly	3.1%
Arizona	Quarterly, Annually, TTF	Quarterly	2%
California	Tied to Fed EFT	Quarterly	3.4
Colorado	Weekly, Monthly, Quarterly	Quarterly	1.7% - 6.82%
Connecticut	Weekly, Monthly, Quarterly	Quarterly	2.8%
District of Columbia	Monthly	Quarterly	2.9%
Delaware	Monthly, Quarterly	Quarterly	1.2%
Florida		Quarterly	2.7%
Georgia	Daily, Semi-Weekly, Monthly, Quarterly	Quarterly	2.7%
Hawaii	Semi-Weekly, Monthly, Quarterly	Quarterly	4%
Iowa	Semi-Weekly, Monthly, Quarterly	Quarterly	1% - 7.5%

State	SIT	SUI	New Employer Rate
Idaho	Monthly, Semi-Monthly, Quarterly, Annually	Quarterly	.8%
Illinois	Monthly, Semi-Monthly, Annually	Quarterly	3.95%
Indiana	Monthly	Quarterly	1.6% - 2.5%
Kansas	Monthly, Semi-Monthly, Quarterly, Quad Monthly, Annually	Quarterly	2.7% - 6%
Kentucky	Monthly, Semi-Monthly, Quarterly	Quarterly	2.7% - 9%
Louisiana	Monthly, Semi-Monthly, Quarterly	Quarterly	.15% - 2.86%
Massachusetts	Monthly, Monthly, Quarterly, Quarter Monthly, Annually	Quarterly	2.42% - 6.72%+
Maryland	Daily, Monthly, Quarterly	Quarterly	2.3% - 5.1%
Maine	Quarterly, Semi-Weekly	Quarterly	2.19%
Michigan	Monthly, Quarterly, Tied to Fed	Quarterly	2.7%
Minnesota	Tied to Fed	Quarterly	Industry Based
Missouri	Monthly, Quarterly, Annually	Quarterly	2.511%
Mississippi	Accelerated Monthly, Monthly, Quarterly	Quarterly	1.2% - 1.4%

State	SIT	SUI	New Employer Rate
Montana	Semi-Weekly, Monthly, Annually	Quarterly	1.18% - 2.38%
North Carolina	Semi-Weekly, Monthly, Annually	Quarterly	1%
North Dakota	Quarterly, Annually	Quarterly	1.13% - 9.97%
Nebraska	Monthly	Quarterly	1.25% - 5.4%
New Hampshire		Quarterly	1.7%
New Jersey	Weekly, Monthly	Quarterly	2.9825%
New Mexico	Accelerated Monthly, Monthly, Quarterly	Quarterly	1% - 1.06%
Nevada		Quarterly	3%
New York	Daily	Quarterly	4.025% + .075%
Ohio	Semi-Weekly, Monthly, Quarterly	Quarterly	2.7% - 5.6%
Oklahoma	Semi-Weekly, Monthly	Quarterly	1.5%
Oregon	Tied to Fed	Quarterly	2.1%
Pennsylvania	Semi-Weekly, Monthly, Semi-Monthly, Quarterly	Quarterly	3.8% - 10.5924%

State	SIT	SUI	New Employer Rate
Puerto Rico	Semi-Weekly, Monthly	Quarterly	3.3%
Rhode Island	Weekly, Monthly, Quarterly	Quarterly	1.19%
South Carolina	Monthly, Tied to Fed	Quarterly	.45%
South Dakota		Quarterly	1% - 1.2% +.55%
Tennessee		Quarterly	2.7%
Texas		Quarterly	2.7%
Utah	Monthly, Quarterly	Quarterly	Industry Average
Virginia	Semi-Weekly, Monthly, Quarterly	Quarterly	2.53%
Vermont	Semi-Weekly, Monthly, Quarterly	Quarterly	1% - 4.2%
Washington		Quarterly	Industry Average
Wisconsin	Monthly, Semi-Monthly, Quarterly, Annually	Quarterly	2.9% - 3.25%
West Virginia	Monthly	Quarterly	2.7%
Wyoming	Quarterly	Quarterly	By Class Code

Steps to Get You Started



Determine if You Need to Foreign Qualify

- If a Michigan company is “doing business” in Illinois (a physical presence), it is operating as a foreign LLC in the other state.
- This commonly comes up when LLCs are formed in states with business-friendly tax laws but do business in their home State. It may also occur when a business starts expanding into other States.
- A foreign LLC is required to register with the Secretary of State in the foreign State. The LLC certificate (and other documents) issued by the home State will be needed.

What Qualifies as Doing Business?

When reviewing the need for foreign qualification, you have to look closely at your business activities. The exact definition of “doing business” varies by state, but typically it equates to:

- The business has a physical presence (office, warehouse, or retail store) in the state.
- The business conducts in-person meetings with clients or customers in the state.
- The business is structured as a LLC, corporation, or limited partnership .
- The business has employees living/working in the state.
- You’ve reached a sales threshold in that state.

What Doesn't Qualify as Doing Business?

In most states, the following business activities also do not constitute transacting business in a state:

- Defending or settling a lawsuit.
- Dealing with internal LLC or corporate business such as member meetings.
- Having a bank account in the state.
- Selling through independent contractors.
- Securing or collecting debts.
- Conducting an isolated transaction that is completed within 180 days and not repeated.

1. Obtain a Certificate of Authority

- Most states have similar procedures to file a foreign qualification and it starts at the Secretary of State's office in the state you want to register.
- Your clients need to submit a Certificate of Authority application form.
- State fees will also apply, and these can range from less than \$50 to several hundred dollars.

2. Obtain a Certificate of Good Standing

- The client might also have to show the business is in good standing in its home state, which may require official documentation.
- A Certificate of Good Standing is Certificate is to ensure that the corporation or Limited Liability Company (LLC) has kept up with their responsibilities to the state and specific tax boards as a legal entity and that the specific entity is current and in good standing with the state.
- If the designated company is not in Good Standing at the time of the request, the Secretary of State will require the company to reinstate good standing before they can issue the Certificate of Good Standing to the designated company.

3. Perform a Name Search

- Next, the client needs to do a name search in each state to make sure the business name is legally available.
- If the desired name is not available, they will need to use a “fictitious name” (aka Doing Business As or a DBA) in that state.
- A DBA is a name that’s different from the legal name of the company. It is a name the business wants to use when marketing itself to the public and dealing with customers.
- Specific requirements for filing a DBA vary from state to state, county to county. In some states, you register your DBA with the State Secretary of State or other state agency.

4. Assign a Registered Agent

- Once your client has foreign qualification, they will need to appoint a registered agent.
- A registered agent is also known as statutory agent or resident agent.
- A registered agent is a person or company with the authority to accept service of process (legal documents and government notices) on behalf of a business.
- This individual or business entity must have a physical location in the state of foreign qualification.
- The Registered Agent must be available Monday through Friday, from 8am to 5pm, at the location specified on your articles in order to accept service of process.

Risks of Not Filing for Foreign Qualification

- Failing to foreign qualify when it's required can cause significant issues for your business clients, including being penalized for operating illegally in the states where business is conducted.
- Some of the penalties include:
 - Fines and interest for the time the company was conducting business in the state and was not foreign qualified
 - Payment for missing filing fees the company should have paid.
 - Payment of back taxes for the time the company was doing business without being foreign qualified.
 - Ineligibility to sue in the state, because an entity can't bring suit in a state where it isn't registered.

Home State vs. Out-of-State Payroll Tax Requirements

- Let's say you have employees living in different states from where the business is located (all the more possible with so many remote workers getting hired), what do you do then?
- As an employer, you must withhold and deposit federal taxes and withhold state income taxes in the state where the employee lives.
- Employing workers in other states requires your business to register with that state's tax agency, acquire a state income tax withholding number, get an unemployment insurance number, and withhold income taxes.
- You must also register with the state's Department of Labor and follow the state's laws for employees including, minimum wage, labor regulations, state disability insurance, and worker's compensation rules.

Reciprocal States

- Reciprocal agreements between states allow employees that work in one state (but live in another) to only pay income taxes to their state of residency.
- If reciprocity exists between the two states, employees will need to complete and deliver a non-residency certificate to you in order to have residency state tax withheld instead of the work state tax.
- While reciprocity is determined by an employee's home address and pertains to their income tax withheld, unemployment liability is typically determined by an employee's work address.

State	Reciprocity States	Non-Resident Certificate
Arizona	California, Indiana, Oregon and Virginia	WEC
Illinois	Iowa, Kentucky, Michigan and Wisconsin	IL-W-5-NR
Indiana	Kentucky, Michigan, Ohio, Pennsylvania and Wisconsin	WH-47
Iowa	Illinois	44-016
Kentucky	Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia and Wisconsin	42A809
Maryland	Pennsylvania, Virginia, Washington, D.C. and West Virginia	MW 507
Michigan	Illinois, Indiana, Kentucky, Minnesota, Ohio and Wisconsin	MI-W4
Minnesota	Michigan and North Dakota	MWR
Montana	North Dakota	MT-R
New Jersey	Pennsylvania*	NJ-165
North Dakota	Minnesota and Montana	NDW-R
Ohio	Indiana, Kentucky, Michigan, Pennsylvania and West Virginia	IT-4NR
Pennsylvania	Indiana, Maryland, New Jersey, Ohio, Virginia and West Virginia	REV-419
Virginia	Kentucky, Maryland, Pennsylvania, Washington, D.C. and West Virginia	VA-4
Washington, D.C.	Maryland and Virginia	D-4A
West Virginia	Kentucky, Maryland, Ohio, Pennsylvania and Virginia	WV/IT-104
Wisconsin	Illinois, Indiana, Kentucky and Michigan	W-220

Setup a Formal Payroll Process

- Obtain an EIN.
- Register for EFTPS.
- Obtain a local or state business ID if required.
- Collect your employee information: name, start date, social security number, date of birth, compensation details, Form I-9, Form W-4.
- Classify your employees into independent contractor vs. employee and exempt vs. nonexempt.
- Chose a pay period.
- Manually calculate your tax requirements per employee or pick a payroll system like Gusto or Paychex to make payroll a lot easier on yourself.

Helpful Resources



CorpNet Tools Are Your Resources

- Business Name Search Tool
- Interactive Business Structure Wizard Tool
- CorpNet Compliance Portal With Monitoring and Proactive Alerts
- Annual Meeting Minutes Services
- Business Guides and Checklists
- The CorpNet Blog



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Have Questions?

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Do you manage business incorporation and compliance activities for your organization or on behalf of your clients?

- ☐ Yes, for my organization
- ☐ Yes, on behalf of my clients
- ☐ Yes, I advise my clients
- ☐ Not currently, but I am interested in offering this service



Polling Question #1

How do you currently manage business incorporation and compliance activities?

- ☐ I currently use CorpNet
- ☐ I use another filing and compliance service
- ☐ Internet research and spreadsheets
- ☐ Other



Polling Question #2

How frequently do you form new entities or file reports for existing entities?

- ☐ 0-4 times per year
- ☐ 5-10 times per year
- ☐ 11-20 times per year
- ☐ 20+ times per year



Polling Question #3

Would you like to learn more about working with CorpNet?

- ☐ Yes, I am interested in possibly using CorpNet within my organization
- ☐ Yes, I am interested in learning more about CorpNet's partner program
- ☐ Not at this time



Polling Question #4