



Overcoming the Complexities of being a Multi-State Employer

Expanding your business into new states can be an exciting time for a growing company. If you make smart decisions, there is a very good chance the ability to reach a larger market and increase brand recognition will generate more revenue. There are many benefits to expanding into multiple states but with that also comes employer challenges, challenges which can only be overcome by having a complete multi-state HR infrastructure in place. So what exactly does that mean? And how does it work? Let's look back in time to discover the challenges growing businesses are faced with and why it's important to establish a multi-state HR infrastructure before hiring takes place.

In the mid 1990's a new workplace/employment phenomenon emerged as a result of the Internet Boom. Branded as "Telecommuter/1099 Employees," it seemed like the solution for new virtual companies springing up everywhere. It appeared so simple. All a company had to do was tell the employee they were an independent contractor.

The employee could continue living where they were and receive work assignments and direction from the company via the web. The employee would be responsible for his/her own benefits, in addition to registering as a business with the local, state, and federal taxing authorities. The employee would then receive a check from the company for services rendered.

The "1099 Employee" Challenge

After a short time, operational reality set in. Although most of the "1099 employees" were competent and able to work unsupervised, many proved to be inexperienced when it came to interfacing with government taxing agencies and understanding the tax implications of being an independent contractor. As a result, most employees would not make payroll tax deposits and when faced with filing their personal tax returns, there was no money set aside to pay these liabilities. Many reported to their state

and to the IRS that their “employer” had not withheld payroll and income taxes and had not issued them a W-2 statement. Consequently, many companies using “1099 employees” were forced to pay all of the taxes owed by the “1099 employees” plus interest and penalties for their misclassifications.



Virtual companies everywhere encountered major challenges while attempting to create their own multi-state HR infrastructures for hiring telecommuters. Some of the hurdles they faced, which are still prevalent today, were:

1. No multi-state workers compensation insurance carrier would talk to them unless they had projected monthly premiums of at least \$3,000 per month. Most also refrained from covering telecommuters because it was almost impossible to dispute a household injury from a work injury when an employee worked unsupervised in their own home.
2. Most medical insurance carriers would not talk at all because they would not provide medical insurance to just a few employees in each state.
3. All states required employer registration and the opening of state unemployment accounts, state income tax withholding accounts, and occasionally local city tax accounts before a paycheck could be issued. Many states would not accept registration unless the company had a physical address in their state. In addition,

many states had a single registration portal so when the intent was to simply open an account for depositing an employee’s state income tax withholding and paying state unemployment, it would trigger the requirement for corporate income tax filings, even if the company had no sales in that state. It was especially painful when companies went through the hassle of setting up each of these accounts for a single employee only to find that the employee would soon quit or had to be let go. This would require the company to spend even more time shutting down the accounts (sometimes taking up to a year) because they had to file year end W-3 reports for each state.

Plan of Attack

In 1996 Pay Plus Benefits, Inc. committed to building an environment that could help companies solve these challenges. It would require:

1. Building a secure web-based HR system that would collect and deliver payroll and HR information to all client and employee locations.
2. Find a worker’s compensation carrier that would provide coverage in all 50 states, specifically to include telecommuters.
3. Put together a medical insurance plan that was assuring and equal to all employees and their spouses, no matter where they lived.
4. Write a 401(k) plan that would allow each client company to join quickly and yet be able to accommodate each new client’s financial circumstances, while still being in compliance with all IRS regulations.

A Multi-State HR Infrastructure is Born

In 1998 Pay Plus Benefits, Inc. introduced the service of renting a multi-state HR infrastructure. Under this service model, the required components for a multi-state company are bundled together and delivered seamlessly as an entire HR package.

No matter where employees and managers are located, Pay Plus Benefits' online Service Center provides data transparency to close the information gap between individual work locations. Employees can access everything from policies and procedures to paid leave balances and W-2's. Additionally, executives and supervisors can get the tools and information they need to better manage their business. These include:

1. An automatic report delivery system to help them track job costs and labor distribution plus items like paid leave, overtime, and important upcoming dates.
2. An online hiring system that allows supervisors to collect and submit new-hire information from any location, putting employees one step closer to receiving their first paycheck.
3. An online time entry system for supervisors to review and submit employee work hours any-time, anywhere.

Also under this service model, payroll, benefits, workers' compensation, and a 401(k) retirement plan are available to employees no matter what state they are located in. Pay Plus Benefits assumes total responsibility for paying all federal, state, and local payroll taxes and workers' compensation premiums. That means if the state or city where a telecommuter works has obscure employment and benefit requirements, such as an additional disability tax or metro transit tax, the governing authority would go directly to Pay Plus Benefits, bypassing the need for clients to get involved.

With online tools and resources to close the information gap between separate locations and Pay Plus Benefits' experienced team working behind the scenes, having employees in multiple states is no longer a nightmare.



Proven Results

In summary, renting a complete multi-state HR infrastructure means companies can get peace of mind knowing their employer obligations are taken care of so they can focus on the success of their company's expansion. In fact, since its inception, Pay Plus Benefits' multi-state HR infrastructure has successfully helped numerous companies expand into new states. In the past 12 years, 68% of Pay Plus Benefits' clients have been new start-up companies, 65% of which needed multi-state services within 8 months after starting. 7% of these were large established companies who found using Pay Plus Benefits' services much easier than creating their own from scratch. It goes to show that renting a complete multi-state HR infrastructure can go a long way in helping companies succeed, no matter where their employees are located.



If you would like to join the many companies who have successfully expanded their workforce into new states with the help of Pay Plus Benefits, please visit www.payplusbenefits.com or call 1.888.531.5781.