



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

September 27, 2013

## Paymaster Deduction

### Deduction available for qualified paymasters

Effective October 1, 2013, a qualified employer of record (paymaster) that provides payroll and related human resources services for an affiliated business may take a deduction from gross income for amounts received to cover employee costs of a qualified employee.

A **qualified employer of record** or **paymaster** is a person who:

- Has no functional employment relationship with a qualified employee; and
- Has no contractual liability with a qualified employee for the employee costs.

A qualified employer of record may have statutory or common law liability to the qualified employees or to third parties for employee costs.

A qualified employer of record must be under common control with the affiliated business. "Common control" means the possession, directly or indirectly, of more than fifty percent of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting shares, by contract, or otherwise.

A **qualified employee** is an employee with whom the affiliated business has a functional employment relationship. If more than one affiliate has a functional employment relationship with an employee, then the employee is not a qualified employee and employee costs related to that employee cannot be deducted.

A **functional employment relationship** means:

- Control over the work schedule and activities of the employee; and
- Control over all employment decisions such as salary, discipline, hiring or layoffs.

**Employee costs** are the actual cost of wages and salaries, benefits, workers' compensation, payroll taxes, withholding, or other assessments paid to or on behalf of an employee.

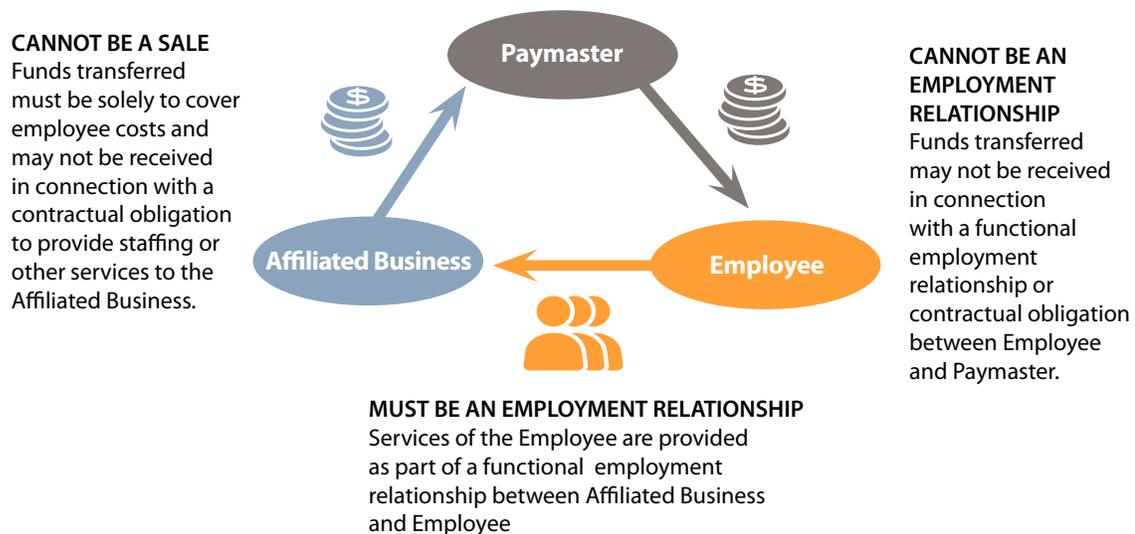
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## Purpose

The purpose of this deduction is to allow an employer of record to act as a paymaster and obtain pass-through treatment for amounts received from affiliates to cover employee costs, even though the employer of record may have statutory liability for those costs, such as liability for wages and taxes.

A qualified employer of record must meet all statutory requirements to claim the deduction.

However in general, the deduction requires that each relationship be consistent with the paymaster acting as agent and not as a purchaser and reseller of employee labor. To illustrate:



## Claiming the deduction

Qualified employers of record will owe B&O tax calculated on the difference between gross income and the deduction (taxable income) and must report taxable income on their excise tax return under the service and other activities classification. To claim the deduction, follow the instructions below:

- **Electronic filers:** Report the amount of employee costs under the specific deduction “paymaster service from affiliated business.”
- **Paper filers:** Report the amount of employee costs as an “other” deduction with the following explanation: “paymaster service from affiliated business.”

No deduction is allowed for periods prior to October 1, 2013.

## Reference

Engrossed Substitute Senate Bill 5882 Part I, Chapter 13, Laws of 2013, 2nd Special Session.

## For more information

Contact the Department’s Telephone Information Center at 360-705-6705.