



## How Fortune 1000 Companies Can Use SUB-Pay Plans As a Tax Planning Strategy

In the face of increasing national and international competition, Fortune 1000 companies are continually assessing their corporate tax strategies to find new ways to maximize cash flow and reduce their tax burden.

Corporate finance departments often focus on employee benefit plans to look for ways to improve efficiencies, control costs, and increase tax savings. CFO's and tax specialists should also examine company severance plans to ensure that these programs are designed and administered on a tax-advantaged basis. What many companies do not realize is that there is an IRS-compliant severance strategy that offers significant tax savings.

### Cut Costs and Increase Cash Flow

U.S. companies that routinely pay severance benefits or expect to pay such benefits in the future as a result of a merger, acquisition, business realignment or seasonal employment may be able to realize substantial Social Security and Medicare tax ("FICA") savings for them and their employees by structuring these payments under a Supplemental Unemployment Benefit ("SUB-Pay") Plan.

Traditional severance plans do not provide adequate tax advantages. In addition, lump-sum severance payments hit a company's balance sheet and cash reserves immediately, and impose a significant administrative burden. Conversely, a SUB-Pay Plan is a better overall tax strategy that reduces severance costs, reduces a company's administrative workload, and provides more benefits to laid-off workers due to the FICA tax exemption.

SUB-Pay Plans can save companies 7.65%-45% or more in severance costs from payroll tax savings and the coordination of state unemployment insurance ("UI") benefits. Furthermore, SUB-Pay benefits are paid on a periodic basis reducing the cash flow impact to the company.

### What Is a SUB-Pay Plan?

Introduced by the IRS in 1956, SUB-Pay Plans save payroll tax dollars and enable the company to utilize their paid-in asset of state UI taxes to supplement state UI benefits with separation pay. When combined, these benefits provide the laid-off worker with up to 100% of their pre-layoff wage.

### Summary of SUB-Pay Benefits

#### *Benefits to the Employer*

- Plans are customized based upon the specific financial and cultural objectives of each business;
- Saves a minimum of 7.65% in severance costs from FICA tax savings or up to 45% when state UI benefits are coordinated with separation pay;
- Payments are exempt from both FUTA and SUTA taxes;
- Saves 45% or more of severance costs when state UI benefits are coordinated with separation pay;
- Reduces the impact of severance costs on the company's cash flow since SUB-Pay benefits are required to be made on a periodic basis;
- Reduces the administrative burden and costs when the company outsources the communication, support and assistance to the former employee to a third-party administrator for the duration of their plan.

#### *Benefits to the Former Employee*

- Provides 7.65% more separation pay because SUB-Pay is not subject to FICA tax;



- SUB-Pay Plans are paid on a periodic basis which provides the former employee with steady income during their transition to reemployment, and may reduce the additional tax burden associated with lump-sum severance payments;
- A dedicated SUB-Pay Plan partner provides laid-off workers with a ready resource to help them during their transition period including individual call center assistance plus, IVR and web support services;
- Provides former employees with an "advocate" to help them with state UI benefit claim opening or issues that may arise.

### **Benefits of Outsourcing SUB-Pay Plan Administration**

Outsourcing SUB-Pay Plan administration reduces the workload and stress of a staff reduction on HR and payroll.

### **Additional Benefits of a SUB-Pay Plan**

As with severance plans, once a SUB-Pay Plan is established it can continue to be used indefinitely for any involuntary staff reductions.

A very desirable benefit of a Total Management Solutions ("TMS") SUB-Pay Plan is our Client Service Center. Upon termination, employers can immediately outsource their laid-off workers to TMS for the duration of their transition period. Our Customer Service Center will facilitate the entire SUB-Pay Plan process; including helping with opening unemployment claims, handling all laid-off worker benefit and payroll questions, and handling IRS required tracking and updating of eligibility for SUB-Pay Plan benefits.

*Separating employees is a fact of doing business. Make sure your severance plan is working for you.*

### **About TMS**

TMS is a trusted advisor to Fortune 1000 and mid-sized companies across the US helping them change, manage and administer their severance programs. Through our SUB-Pay Plans, we help companies reduce the high cost, stress and burden associated with implementing staff severance programs, resulting from a merger, acquisition, business realignment or economic downturn. With SUB-Pay, our clients typically save up to 45% of traditional severance costs, while providing more separation benefits to laid-off employees.

With over 25 years of experience, TMS is the only company solely dedicated to the design, implementation and administration of SUB-Pay Plans. Every program is modelled to your specific needs and is supported by an expert management team, sophisticated technology and unparalleled customer service. Once the SUB-Pay plan is designed and implemented, TMS manages the day-to-day aspects of the program for you, while our personal service provides displaced employees with full support services from our client support center.

We literally own the URL [www.subpay.com](http://www.subpay.com). For more information, please visit our website or contact us directly at (800) 464-7755. Bryan Lihzis, Senior Vice President, Total Management Solutions, Inc., can also be reached at [blihzis@subpay.com](mailto:blihzis@subpay.com).