

Third-Party Payroll Service Providers

OCTOBER 31, 2008

BE IN A POSITION OF STRENGTH

Many businesses use a third-party service provider to process their payroll. Although this is generally an efficient, cost effective way to handle a company's payroll needs, it is important for you to understand that, even if a third party is making the deposits, the employer (including potentially, the owners and officers of the employer) remains the third party as far as the IRS is concerned.

There have been a number of recent prosecutions of individuals and companies who have, acting under the guise of a service provider, stolen funds intended for payment of employment taxes. To ensure this does not happen to your business, we recommend taking the following precautions when using a third-party payroll service provider:

- Make sure the business's (rather than the service provider's) name and address is on the payroll returns. If there are any issues with your account, the IRS will notify you. However, this notice will typically go to the address of record (the address on the payroll tax return) which should be your business address, so you'll get the notice if there is a problem. If appropriate, you can then forward the notice to the payroll processor.
- For your protection, always ask to see verifiable proof that the payroll service provider has a fiduciary bond in place (to help protect against the service provider defaulting on its obligations).
- If a service provider will be making your tax deposits, you should make sure it enrolls in the government's Electronic Federal Tax Payment System (EFTPS) if it hasn't already. Doing so should allow you to easily confirm that the proper payments are being made on your behalf. You should also make it a practice to verify EFTPS payments when reconciling your business bank accounts.

Questions or comments?
E-mail us at taxbriefs@withum.com



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EFTPS is secure, accurate, easy to use, and provides an immediate confirmation for each transaction. It is free and will enable you to verify federal tax payments electronically 24 hours a day, 7 days a week through the Internet, or by phone. You can enroll online at **EFTPS.gov**, or call EFTPS Customer Service at (800) 555-4477 for an enrollment form.

Please contact us if you would like to find out more about EFTPS or have any other questions about how to ensure that you have proper safe guards in place for your payroll processing-whether it's outsourced or completed in house.

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E-mail us at taxbriefs@withum.com

If you have any questions, please contact the WS+B tax department. #263



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