

Outsourcing Payroll Duties

Outsourcing Payroll Duties Can Be a Sound Business Practice, But... Know Your Tax Responsibilities as an Employer

Many employers outsource some of their payroll and related tax duties to third-party payroll service providers. They can help assure filing deadlines and deposit requirements are met and greatly streamline business operations. Some of the services they provide are:

- Administering payroll and employment taxes on behalf of the employer, where the employer provides the funds initially to the third-party.
- Reporting, collecting and depositing employment taxes with state and federal authorities.

Employers who outsource some or all of their payroll responsibilities should consider the following:

- The employer is ultimately responsible for the deposit and payment of federal tax liabilities. Even though the third-party is making the deposits, the employer is the responsible party. If the third-party fails to make the federal tax payments, the IRS may assess penalties and interest on the employer's account. The employer is liable for all taxes, penalties and interest due. The employer may also be held personally liable for certain unpaid federal taxes.
- If there are any issues with an account, the IRS will send correspondence to the employer at the address of record. The IRS strongly suggests that the employer does not change their address of record to that of the payroll service provider as it may significantly limit the employer's ability to be informed of tax matters involving their business.
- Employers should ensure their service providers are using EFTPS (Electronic Federal Tax Payment System) so the employer can confirm payments made on their behalf. Everyone should use EFTPS and Treasury regulations require electronic payment for payroll taxes over \$200,000 in a calendar year. Employers should register on the EFTPS system to get their own PIN and use this PIN to periodically verify payments. A red flag should go up the first time a service provider misses or makes a late payment. When an employer registers on EFTPS they will have on-line access to their payment history for 16 months. In addition, EFTPS allows employers to make any additional tax payments that their third-party provider is not making on their behalf such as estimated tax payments

EFTPS is secure, accurate, easy to use and provides an immediate confirmation for each transaction. The service is offered free of charge from the U.S. Department of Treasury and enables employers to make and verify federal tax payments electronically 24 hours a day, 7 days a week through the Internet, or by phone. For more information, employers can enroll online at EFTPS.gov, or call EFTPS Customer Service at (800) 555-4477 for an enrollment form.

There have been recent prosecutions of individuals and companies who have, acting under the guise of a service provider, stolen funds intended for payment of employment taxes. For more information, visit the [Examples of Employment Tax Investigations FY2008 Web page](#).

Remember, employers are ultimately responsible for the payment of income tax withheld and both the employer and employee portions of social security and Medicare taxes.

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