Use Best Practices When Outsourcing Payroll

by Joseph M. Donegan on July 31, 2013

Many companies, especially small businesses, prefer to use a reputable third-party firm for the task of outsourcing payroll. While this trend may free up more time and energy for business owners to focus on their operations, it can also create stress over tax compliance if owners do not take the proper steps to ensure their responsibilities are being carried out.

There have been a number of payroll fraud cases lately in which third-party providers fail to carry out their obligations to the company - such as collecting and depositing payroll taxes on the employer's behalf and filing required payroll tax returns with state and federal authorities - thereby leaving the business facing federal tax liabilities. Whether the business itself faces sole liability or shares it with the third-party firm will vary by circumstance, but the process of correcting these errors can still be costly and tedious. Therefore, it's important to implement a few safeguards to ensure compliance with federal laws.

For example, the IRS reports that companies that enroll in the government's Electronic Federal Tax Payment System and require third-party providers to make deposits through this system can better monitor their accounts and ensure compliance. The portal enables employers to view their payment history, which can help them detect errors or mistakes on the part of the third party.

The IRS recommends that employers also continue using their address as the primary point of contact with the tax agency, rather than substituting it with the third party's address. The IRS does allow businesses to list the payroll provider's address on file and have correspondence sent to them. However, by ensuring that all correspondence is sent directly to employers, they can ensure that they receive all bills, notices and information from the IRS.