

# IRS Fact Sheet

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## Tips for Employers Who Outsource Payroll Duties

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Many employers outsource their payroll and related tax duties to third-party payers such as payroll service providers and reporting agents. Reputable third-party payers can help employers streamline their business operations by collecting and timely depositing payroll taxes on the employer's behalf and filing required payroll tax returns with state and federal authorities.

Though most of these businesses provide very good service, there are, unfortunately, some who do not have their clients' best interests at heart. Over the past few months, a number of these individuals and companies around the country have been prosecuted for stealing funds intended for the payment of payroll taxes. [Examples](#) of these successful prosecutions can be found on IRS.gov.

Like employers who handle their own payroll duties, employers who [outsource this function](#) are still legally responsible for any and all payroll taxes due. This includes any federal income taxes withheld as well as both the employer and employee's share of social security and Medicare taxes. This is true even if the employer forwards tax amounts to a PSP or RA to make the required deposits or payments. For an overview of how the duties and obligations of agents, reporting agents and payroll service providers differ from one another, see the [Third Party Arrangement Chart](#) on IRS.gov.

Here are some steps employers can take to protect themselves from unscrupulous third-party payers.

- Enroll in the [Electronic Federal Tax Payment System](#) and make sure the PSP or RA uses EFTPS to make tax deposits. Available free from the Treasury Department, EFTPS gives employers safe and easy online access to their payment history when deposits are made under their Employer Identification Number, enabling them to monitor whether their third-party payer is properly carrying out their tax deposit responsibilities. It also gives them the option of making any missed deposits themselves, as well as paying other individual and business taxes electronically, either online or by phone. To enroll or for more information, call toll-free 800-555-4477 or visit [www.eftps.gov](http://www.eftps.gov).
- Refrain from substituting the third-party's address for the employer's address. Though employers are allowed to and have the option of making or agreeing to such a change, the IRS recommends that employer's continue to use their own address as the address on record with the tax agency. Doing so ensures that the employer will continue to receive bills, notices and other account-

related correspondence from the IRS. It also gives employers a way to monitor the third-party payer and easily spot any improper diversion of funds.

- Contact the IRS about any bills or notices and do so as soon as possible. This is especially important if it involves a payment that the employer believes was made or should have been made by a third-party payer. Call the number on the bill, write to the IRS office that sent the bill, contact the IRS business tax hotline at 800-829-4933 or visit a local IRS office. See [Receiving a Bill from the IRS](#) on IRS.gov for more information.
- For employers who choose to use a reporting agent, be aware of the special rules that apply to RAs. Among other things, reporting agents are generally required to use EFTPS and file payroll tax returns electronically. They are also required to provide employers with a written statement detailing the employer's responsibilities including a reminder that the employer, not the reporting agent, is still legally required to timely file returns and pay any tax due. This statement must be provided upon entering into a contract with the employer and at least quarterly after that. See [Reporting Agents File](#) on IRS.gov for more information.
- Become familiar with the tax [due dates](#) that apply to employers, and use the [Small Business Tax Calendar](#) to keep track of these key dates.