



Testimony of David Kelly
President - KTBS Payroll
Before the Maryland Commission to Study the Regulation of Payroll Services
October 24, 2013

Mr. Chairman and members of the Commission, thank you for the opportunity to provide comment on the important matters this Commission has been charged with studying.

KTBS Payroll is a division of Kelly & Associates Financial Services, Inc. and is an affiliate of [Kelly & Associates Insurance Group, Inc.](#), which was founded in 1976 by Janet and Senator Frank Kelly. KTBS Payroll provides online payroll services with full-service benefits integration, as well as workers compensation integration.

KTBS Payroll is a Maryland company that serves more than 1,300 clients and processes over \$3.5 billion in payroll annually. KTBS Payroll is a Registered Agent with the IRS. Reporting Agents (RAs) are companies (not individuals) with qualified designated representatives that perform payroll services for other businesses. RAs adhere to IRS guidelines and have long served an important role in our nation's tax collection system as a conduit between employers and the IRS. Reporting Agents improve the efficiency of IRS tax collection and compliance. Reporting Agents assist employers in making required tax deposits and tax information filings to the federal government and to state and local governments. In order to be an RA one must undergo extensive background checks, which include screening for previous tax compliance as well as fingerprinting.

There are several ways to reduce fraud. First, a client could be injured, due to a lack of notice. This could occur if their address on record with the taxing authority had been changed without their knowledge. Thus, when a taxing authority gives notice that taxes are due, that notice is not received by the person or company responsible for making payments. We suggest that the taxing authority verify the address change request by sending notification to the company's previous address on file. This is a basic practice that can and should be implemented by all State agencies when a business address change is requested.

Secondly, businesses should be aware of the Electronic Federal Taxpayer System and use this to verify that payments are being made accurately and timely on their behalf. As a local Maryland company, we would support the Comptroller enhancing the existing state system to provide a similar verification tool. As a Maryland business, serving primarily Maryland companies, it is important for the Commission to understand the complexity of this industry. We ourselves make payments and/or provide reports to 49 states and the District of Columbia for the companies we service. We are responsible for keeping abreast of all the changes in all those various tax jurisdictions. It would be very difficult for us to comply with 49 different regulatory schemes in addition to maintaining our up to the minute knowledge about tax changes. For this reason, we hope this Commission does not see unique Maryland regulation or licensure as a solution to what has been, thankfully, a rare problem. Maryland should follow

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the IRS example and make information available to taxpayers about their accounts, not strike out alone on creating regulatory bodies or licensing. We believe it is important for the Commission to understand that payroll providers provide a much needed and valued service including payroll compliance, facilitating tax payments and reporting just to name a few.

Third, we think education of our clients and disclosure to them of the various information resources are appropriate ways to prevent payroll services fraud. These businesses are the best guardians of their own funds. *KTSBPayroll* takes its fiduciary duty to clients seriously. We would support giving them any additional tools they need to verify that we and other payroll servicing companies are fulfilling our obligations.

In conclusion, we believe there are 3 solutions to avoid fraud; address verification, verification of payment amounts and education. I think your deliberations have been useful in identifying the role government can play in this important relationship between the taxpayer and payroll services providers. Respectfully, we think the evidence points to the government ensuring information and transparency for the taxpayer and encouraging the taxpayer to be a diligent customer.

Thank you for your time.