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Many businesses rely on a payroll service provider to handle their tax withholdings, but they still need to make sure the Internal Revenue Service and state agencies get their due.

That fact became evident in recent days, following allegations that a Bel Air, Maryland payroll company had failed to forward clients' tax payments to the federal government. The company — AccuPay — is under police investigation and being sued by several clients.

States, including Maryland, generally don't license payroll service providers or require them to be bonded. That means employers need to be vigilant.

"You need to verify that the payments are made as if they were made by a bookkeeper in [your] own office," said Rod J. Rosenstein, the U.S. attorney for Maryland. "The first time the payments are not made on time, it's a pretty good idea to get a new payroll company."

The IRS last year started requiring payroll service providers when hired — and quarterly thereafter — to remind the employer that it is ultimately responsible for tax withholdings, said Pete Isberg, president of the National Payroll Reporting Consortium, whose members include the largest payroll service providers.

Payroll service providers also must tell customers they can check online to make sure their withholdings have been forwarded to the U.S. Treasury Department, he said.

Businesses generally authorize payroll service providers to deal with IRS questions

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back taxes with some interest, said James Leith, the taxpayer advocate at the IRS for Maryland. That can add up if a problem goes undetected for a year or so — which is often the case.

“We would like to see more early intervention” from the IRS, Leith said. For instance, the IRS should contact an employer the first quarter after payments have stopped, Leith said.

After one quarter, the taxes and interest are manageable, but after four quarters, it’s “four times worse,” he said.

Angie Barnett, president of the Better Business Bureau of Greater Maryland, said employers searching for a payroll service provider should seek recommendations from other small businesses. Employers should also ask prospects for references from their current client list.

Employers can check the bureau’s website at bbb.org for complaints about a company or a rating. AccuPay had two complaints against it during the past three years, including one filed in December alleging the company failed to forward taxes to the IRS and the state, Barnett said. The BBB added an alert Monday to its website about AccuPay, saying the company appears to be out of business.

Small businesses using a payroll service provider can verify their withholdings have been forwarded to the U.S. Treasury Department using the government’s Electronic Federal Tax Payment System at www.eftps.gov. The website will be updated when the government receives the taxes, generally a day after receipt.

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