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disreputable organizations can fail to deposit employment taxes, leaving businesses vulnerable to unpaid bills.

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Employers should be prudent when selecting a payroll service providers, as some disreputable organizations can fail to deposit employment taxes, leaving businesses vulnerable to unpaid bills.

Many employers outsource their payroll and related tax duties to third parties. This streamlines business operations by collecting and timely depositing payroll taxes on

the employer's behalf and filing required payroll tax returns with state and federal

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Though most of these businesses provide quality service, there are, unfortunately, some who do not have their clients' best interests at heart. Each year, a few of these third parties fail to remit the payroll taxes entrusted to them and close their doors abruptly. The damage hits their unsuspecting clients hard.

"Most third-party payroll services do a good job helping small businesses meet their deadlines and payroll obligations," said Eric Hylton, Commissioner, Small Business/Self Employed Division. "But each year some employers fall prey to unscrupulous third-parties that fail to send the IRS the taxes entrusted to them. We are vigilant in pursuing these third parties, but too often their clients – the employers – are left on the hook. The IRS wants all employers to take the necessary steps to protect themselves."

Like employers who handle their own payroll duties, employers who [outsource this function](#) are in most instances 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 shares of Social Security and Medicare taxes. This is true even if the employer forwards tax amounts to the third party to make the required deposits or payments.

One third-party arrangement that can reduce this risk is the certified professional employer organization (CPEO). Unlike other third parties, in most circumstances, the CPEO is solely liable for paying the customer's employment taxes, filing returns and making deposits and payments for the taxes reported with regard to wages and other compensation it pays to its employees. More information on [CPEOs](#) can be found on [IRS.gov](#).

Other third parties, such as payroll service providers (PSPs) and reporting agents (RAs) may also be right for many employers. A reporting agent is a PSP that has informed IRS of its relationship with its client (via [Form 8655](#), Reporting Agent

Authorization, which is signed by the client). A reporting agent is required to deposit

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“IRS Criminal Investigation is committed to investigating all tax criminals, especially professionals who have fiduciary responsibilities and violate the trust of their clients,” said Don Fort, Chief of IRS Criminal Investigation. “Those parties who do violate that trust may go to jail, but the defrauded employers’ problems are just beginning. There is no substitute for continued diligence in ensuring something so important is done right. Your employees are counting on you.”

The IRS urges employers to take a number of steps to protect themselves from unscrupulous third parties.

- Enroll in the [Electronic Federal Tax Payment System](#) and make sure the PSP or Reporting Agent 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 PSP or RA is properly carrying out its 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.
- Reporting Agents are required to deposit clients’ taxes via EFTPS and, with limited exception, electronically file the tax returns. They are also required to provide clients a written statement reminding the employer that it, not the reporting agent, is ultimately responsible for the timely filing of returns and payment of taxes. 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.
- Refrain from substituting the third party’s address for the employer’s address. Though employers are allowed to make or agree to such a change, the IRS recommends that an employer continue to use its own address as the address on

record with the tax agency. Doing so ensures that the employer will continue to

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