

Harry Garmon

From: Charles S. Pearson, Jr., P.C. <cspcpa@cpas4u.net>
Sent: Thursday, August 13, 2015 1:33 PM
To: Harry Garmon
Subject: Walking the Payroll Tightrope

The Pearson Perspective



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AUGUST 2015

Dear Harry,

Here is your copy of **The Pearson Perspective**, a monthly accounting and finance newsletter for individuals, businesses of every size and not-for-profit entities. Our objective is to deliver helpful, topical information to help you navigate the difficult financial waters with peace of mind and confidence.

We'll not bore you with the intricacies of accounting, business administration, taxation and estate planning ... that's our job in serving you. Plan on seeing useful tips related to bookkeeping assistance, business consulting, payroll and tax planning.

Payroll preparation for small/mid-size businesses is defined in minute detail as to requirements for withholding, reporting and remitting to government agencies. So there is little question as to what is needed

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to be in compliance; the decision comes down to do-it-yourself (**DIY**) or hire a payroll service provider (**PSP**) to do it for you. Whichever route you choose, recognize that there is **No Margin for Error** in satisfying your employees and the IRS.

Your feedback is most welcome to increase the value of the newsletter. I promise to review each and every submission and respond promptly.

Sincerely,



WALKING THE PAYROLL TIGHTROPE

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No Margin for Error

Payroll preparation for small/mid-size businesses is defined in minute detail as to requirements for withholding, reporting and remitting to government agencies. So there is little question as to what is needed to be in compliance; the decision comes down to do-it-yourself (DIY) or hire a payroll service provider (PSP) to do it for you.

Regardless of your choice, keep in mind that you will be highly visible to both your employees and the IRS when it comes to processing your payroll. Your employees will immediately let you know of any discrepancy in their net pay ... and loudly react to a missed paycheck. The IRS will vigorously pursue the non-payment of payroll taxes withheld from wages.



Is DIY For You?

In evaluating the DIY route as an option, here are some considerations:

- Is your payroll simple ... meaning just the basics?
- Does either the owner or someone on staff have a good background in accounting plus a willingness to research the laws that pertain to payroll and initiate a system to stay on top of all deadlines?



If the answer to both questions is a resounding "yes" then keeping payroll processing in-house may be a realistic alternative. Any hesitancy in answering in the affirmative probably points to seeking a PSP. It is estimated that 41% of U.S. small businesses choose the latter approach.



One cautionary item: If you choose to maintain payroll preparation internally, be sure to have a "check & balance" in place to ensure accuracy and avoid the potential for embezzlement or fraud. Whoever is responsible for preparing the payroll also has control of the compensation amount reported for themselves and each person on the payroll.

Without internal audit controls, there is often the temptation to pad one's own pay or add one or more phantom employees to the payroll and divert that pay to the preparer.

Most egregious is when payroll taxes are diverted for personal use. The reason this is so critical is that if there is a tax shortfall, the IRS will make personal assessments against all responsible persons - meaning anyone having ownership and/or signature authority for payables whether or not the person had knowledge that employment taxes were not properly and fully remitted to the IRS. In addition, responsible persons may be subject to a penalty equal to 100% of the unpaid taxes. [Click here](#) for a more in-depth discussion of this issue.

**Outsource your payroll
and enjoy worry-free paydays!**

- *No tech problems & software updates*
- *Reduce costs/Increase productivity*
- *Gain outside payroll expertise*
- *Avoid tax penalties*
- *Go green with paperless pay*



Payroll Service Providers (PSP)

Many employers outsource some or all of their payroll and related tax duties to third-

party payroll service providers. Third-party payroll service providers can help assure filing deadlines and deposit requirements are met and greatly streamline business operations. All that, plus the business can concentrate on its core competencies without the distraction of a service that can be affordably outsourced.

A PSP will handle the various functions necessary to satisfy employers' obligations to meet the requirements of payroll processing, i.e. pay Social Security, Medicare, workman's compensation, state, federal and often local taxes for each employee. Additionally, all of these transactions must be properly recorded for auditing and tax purposes.

Increasingly, PSPs have expanded their services to include such things as time-keeping, human resources consulting and administration of 401(K) and IRA retirement plans. Costs will vary depending on the services rendered. Generally, anticipate a per-pay-period fee plus a charge for each check issued.

An added convenience in recent years is internet access by employers to their PSPs. Once the employer account is set up, the employer enters payroll data through a secure portal directly to the PSP. From there the PSP handles all the transactions and reporting as contracted for with the customer. Typically an online approach also permits both employers and employees to have real-time access to their account information to check payments, balances, etc.

Important: The IRS is very clear on one point. In its words, "*The employer is ultimately responsible for the deposit and payment of federal tax liabilities.*"

The point is that you may delegate or assign the task of processing payroll to a PSP, but that will not relieve you as the employer of ultimate responsibility for any failure to make payments to the IRS - that includes income taxes withheld and both the employer and employee portions of social security and Medicare taxes. See the discussion above regarding "responsible persons".

The IRS strongly urges employers to ensure that their PSP is using EFTPS (Electronic Federal Tax Payment System) to confirm that payments are being made on their behalf. For a more complete discussion of this and other cautions [click here](#).

Another issue to address is that of the payroll cash, i.e. the money that will be transferred to pay for payroll taxes and net pay to the employees. Bottom-line is that employers should maintain custody and control of these funds to ensure all necessary payments are made and reconcile to the PSP prepared returns.

Why all this caution? There have been cases of PSPs embezzling funds earmarked for payroll taxes. Under those circumstances, the employer may have to pay the taxes a second time, plus interest and penalties.

To be satisfied that you fully understand your obligations as an employer, [click here](#) for a copy of the *IRS Employer's Tax Guide*.

Choosing a PSP

Payroll experts agree that there is no one-size-fits-all payroll solution. Your decision to choose a PSP is based on your needs, the PSPs track record and costs.

Your Needs: The range may be from basic, i.e. keeping track of wages, processing

paychecks and generating reports; to complex including HR consulting, employee benefits administration and more.

PSPs Track Record: You'll want to know things such as: How long the PSP has been in business?; Does the PSP have other clients in your industry?; How is customer service conducted? Will the PSP offer a list of its clients for you to contact as references?

Costs: These will vary based on the variety of services you require and the number of employee payroll checks that will be processed. Check around to get an idea of competitive pricing in your area.

There are four large national PSPs, ADT, Ceridian, Paychex and C-Biz. Locally, you will find a number of PSPs that are candidates for your business as well. A great place to start is to discuss your needs with your CPA and seek recommendations and referrals.

So check around. Do your homework. It's likely that you'll find the benefits of a PSP far outweigh a DIY approach.

BUSINESS TAX FILING DUE DATES

Welcomed Changes for Partnerships & C Corps.



Congress has passed legislation that has been signed by President Obama giving Partnerships and C Corps more time to file returns. These changes are viewed as a victory for taxpayers as they are expected to provide more accurate information to taxpayers and reduce the number of extended and amended individual and corporate tax returns filed each year. Here's a summary.

Partnerships

The due dates for partnership tax returns have been changed. Calendar-year partnerships due dates now are switched from April 15 to March 15. Fiscal-year partnerships due dates are now the 15th day of the third month after the end of the fiscal year. Additionally, the IRS will now permit an extension of up to six months for filing a partnership return. The new dates take effect for tax years starting after December 31, 2015.

C Corporations

C corporations now have until the 15th day of the fourth month after the close of their year, rather than the current due date of the 15th day of the third month following the year-end close. Corporations will have up to six months to file an extension, although calendar-year corporations will get a five-month extension until 2026. Those with June 30 fiscal year ends will have a seven-month extension until 2026. The new dates take effect for tax years starting after December 31, 2015. However, for C corporations

with June 30 fiscal year ends the changes won't apply until tax years starting after December 31, 2025.

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