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How Start-ups & Small Business Can Protect Against the Problem of Payroll Tax Embezzlement

San Jose, Calif. – May 2, 2013 – According to CPA Mark Sheffield, Principal in charge of Abbott, Stringham & Lynch’s Emerging Business Group, outsourcing payroll to a small payroll service firm could pose a significant financial risk to start-ups and small businesses. “While small payroll service firms can provide a lower-cost higher-touch service experience for emerging businesses, they’re also more likely to perpetrate embezzlement of your payroll tax payments than a big firm due to lack of oversight that leads to increased opportunity,” said Sheffield.

However, if you feel that a small payroll service firm is the right solution for your business needs, Sheffield recommends you consider implementing two or more of the following four controls:

1. **Use a bonded payroll service firm.** When a firm is bonded, it provides you with some insurance in the event of embezzlement.
2. **Ask for documentation.** Require your payroll service provider to give you evidence of payroll tax payment submission. For example, a copy of the bank statement showing the payment or the payment confirmation receipt they received from the IRS and State.
3. **Make your payroll tax payment yourself.** Your provider can still handle the rest of the payroll functions for you, but set-up your service arrangement such that you make your own payroll tax payments, which will increase your control and oversight.
4. **Confirm directly with the IRS and State that your payroll tax payments were received.** The IRS recommends that you enroll in and use the Electronic Federal Tax Payment System (EFTPS at www.eftps.gov) to confirm your provider has made all required deposits on time. In California, you can verify your payroll tax payments by enrolling in and using the State of California Employment Development Department’s e-Services for Businesses (<https://eddservices.edd.ca.gov/tap/secure/eservices>).

“Especially for a start-up or a small business that usually have limited funds, payroll tax payment penalties can be financially devastating. Not to mention, if your payroll service provider embezzled your tax payments, you still have to come up with your payment on top of the penalties,” said Sheffield. Penalties for late tax deposits start at 2% for being just one day late, and quickly escalate to 15% on amounts still unpaid more than 10 days after the date of the first notice. Additionally, there is a Failure to File penalty each month a return is not filed that can be up to 25% of the tax due, and there is a Failure to Pay penalty each month the tax is paid late up to 25% of the tax due.

About Abbott, Stringham & Lynch (ASL)

Abbott, Stringham & Lynch (ASL), founded in 1977, is one of the leading local CPA firms in the Silicon Valley. ASL provides emerging and mid-market private companies and their executives

with accounting and audit, tax, estate and wealth planning, and consulting services. ASL's clients include construction, technology, and real estate businesses among others. ASL is a member of PKF North America, a network of independent CPA firms.

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