

Payroll Service Company FAQ's

What is a Payroll Service Company?

A payroll service company is a person or organization, defined in ARS § 43-418(E)(3), that has custody or control over a client's monies for the purpose of paying the withheld taxes and filing returns of a client with the Department of Revenue.

What is a "client" for purposes of this new law?

A client means another employer for whom the payroll service company provides payroll services for a fee, as defined in ARS § 43-418(E)(1).

I only prepare returns for my client and then give them to the client to file and pay. Do I have to register as a payroll service company?

No. If your clients file and pay their own returns, you are not a payroll service company as defined by the statute and do not have to register with the Department of Revenue.

What do I have to do to comply with the new law?

In order to be in compliance with the new law, a payroll service company must:

- Electronically register with the Department of Revenue.
- Make payments electronically and file returns electronically with the Department of Revenue.
- Provide an electronic list of clients to the Department of Revenue and update it by the first of every month.
- Be authorized in writing by the client to act on behalf of the client with respect to withholding taxes.
- Keep clients monies, held for payment of state withholding tax or other obligations, in an account separate from the payroll service company's own funds.
- Timely file all returns and timely make all withholding tax payments required under its contract with its clients.

I am already registered to do business in Arizona. Do I have to register again as a payroll service company?

Yes, if you meet the definition of a payroll service company for purposes of the new statute.

I am already registered to file and pay my client's taxes on www.aztaxes.gov. Do I have to register as a payroll service company?

Yes. This registration is in addition to any other business registration required by the Department.

What needs to be on the client list?

The client list shall include at least the name, address, tax identification number (the client's employer identification number or EIN) and federal deposit frequency of each client. The client's address must be the actual address of the client and not of the payroll service company.

When do I have to register my payroll service company with the Department of Revenue?

The new statutes are for withholding tax returns due to be filed from and after May 31, 2011. The Department is working on the registration and filing package now. Monitor our progress on www.azdor.gov.

Can the payroll service company terminate their registration with the Department of Revenue?

Yes, you can terminate your registration by written notice to the Department of Revenue.

Are there penalties for non-compliance with the new statute?

Yes. Failure to file a return electronically will result in a \$25 penalty to the payroll service company. Failure to pay electronically will result in a penalty of \$25 to the payroll service company. Multiple \$25 penalties could apply to the same client on one return. For example, if Client A is required to make four payments in the 3rd quarter, and none of the payments are made electronically, the payroll service company would be subject to four \$25 penalties, a total of \$100. If the payroll service company files the quarterly reconciliation for Client A by paper, an additional penalty of \$25 would apply for a grand total of \$125 in penalties assessed toward the payroll service company related to Client A.

Could the penalties be abated?

Yes, if the failure is due to reasonable cause and not willful neglect.