National Payroll Reporting Consortium (NPRC)
Authorizations Summary

Nearly three million U.S. employers, representing more than 48% of the private sector workforce, use a payroll service provider (PSP) to electronically calculate, pay and file employment tax returns. NPRC members alone deposited more than 43% of all IRS employment taxes collected in FY2021, and 29% of total IRS tax collections. PSPs often assist clients in resolving any problems or errors with such tax filings and payments.

Generally, payroll service provider interactions with a taxing authority are to *send* information and tax payments on behalf of clients. The information flow is from the employer to the PSP, and then to the agency. Tax authorities typically only return non-sensitive data, such as confirmation that an electronic file was successfully received.

Due to the increased focus on data security, many taxing authorities are understandably concerned about releasing sensitive data to any potentially unauthorized recipient. However, some states seem to have over-compensated and are now rejecting otherwise-valid tax returns, wage records and tax payments if it isn't clear that the sender is authorized to file and/or pay such taxes.

Employers using PSPs increasingly must follow diverse and duplicative steps to comply with different state requirements to establish their intent to authorize a PSP to file and pay for them. As an example, one state recently implemented a four-step authorization process. The state's system offers no prompts or guidance to assist the employer with assigning proper roles, or how to authorize a PSP, even though nearly half of the employers in the state use a PSP. Employers were notified of the state's new system on March 14, 2019. By October 1, 2019, after months of letters and emails from payroll firms to their clients trying to educate employers and explain the steps, ***barely half of the employers had completed Step 1***, and ***less than 5%*** had completed the final step. Payroll companies cannot apply too much pressure to their clients since businesses hire payroll firms to handle their payroll taxes and filings and tend to terminate their contracts with their payroll firm if they are treated too harshly.

The payroll services industry urges states not to overly complicate the process of registering an authorization in order to file and pay employment taxes. All employers sign clear authorizations directing the PSP to file and pay applicable state and local tax returns on their behalf, and to receive related information, such as the status of a return, assigned tax deposit schedule, assigned tax rate, etc. Many states receive periodic electronic client listings to communicate changes to employer/client rosters, which serve to establish such authorizations, with states able to request copies of any authorization on demand. This avoids the extensive workload otherwise required to evaluate and post copies of paper authorization forms.

According to NIST Publication 800-63-3, Digital Identity Guidelines, which provide technical requirements for federal agencies in authenticating of users interacting with government IT systems over open networks, *receiving payments and information* (such as tax payments and returns) are among the lowest-risk tier, especially if no tax refund is sought. Thus, requiring unique and/or difficult processes to establish an authority to pay and file payroll taxes is unnecessary and in fact serves as a barrier to electronic filing.

1 https://oui.doleta.gov/unemploy/ranking.asp
2 https://oui.doleta.gov/unemploy/nat_sum_tables_2024.asp

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In some situations, a PSP may ask for information from a taxing authority, such as to resolve an error, or a failed electronic filing, or to respond to a notice. We estimate that less than 2% of employers that use PSPs experience such an error each year. In these situations, it is recommended that the state rely on "shared" secrets to establish that the PSP is authorized to work with the state. Some states ask for a recent tax deposit, or a line entry on a recent tax return, or ask the PSP to send a copy of the client's signed authorization.

The NPRC has ongoing collaborative initiatives with state agencies to improve the authorization process to make the exchange of employer / client tax information secure and efficient. A 2022 initiative with the South Carolina Department of Employment and Workforce (DEW) uses a Memorandum of Understanding (MOU) to authorize PSP's to file and pay unemployment insurance taxes on behalf of their clients without the need for a paper copy of any authorization to be accepted and on file with DEW. More recently, in December 2024, NASWA added a POA Exchange to UI SIDES, giving employers, TPAs, and PEOs a fully electronic way to grant and rescind authorization across all fifty states' workforce agencies at once (DOL Training and Employment Notice 14-24) - the kind of systemic fix this document has been recommending since at least 2019. State revenue agencies have no comparable shared platform; closing the gap is a natural next advocacy priority. Experience has shown the MOU to be the most efficient process to securely exchange client authorization information between state agencies and the PSPs hired to file and pay on behalf of their clients.

For additional suggestions regarding authorizations, please review the NPRC report on authorizations. NPRC members are very interested in working with all state tax authorities to develop efficient next-generation systems for wage and tax reporting. Please let us know how we might assist in addressing these issues.

If there are additional questions about authorization processes, please contact NPRC at nprc@nprc-inc.org.

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