Payroll Service Authorization

Best Practices

presented by

NATIONAL PAYROLL REPORTING CONSORTIUM, INC. (NPRC)

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October 2026

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Introduction

The National Payroll Reporting Consortium (NPRC) is a non-profit trade association whose member organizations provide payroll, tax reporting, tax payment, and related services to roughly three million employers nationwide, covering more than 48% of the private sector workforce. NPRC members deposited more than 43% of all IRS employment taxes collected in FY2021, and 29% of total IRS tax collections. The NPRC actively supports appropriate electronic filing and tax payment programs. In addition to our long-time association with state tax authorities, we have long worked with the IRS and private sector organizations dedicated to developing and improving electronic tax filing and payment standards.

This document is intended to provide information for state revenue agencies and state unemployment insurance tax agencies regarding employer authorizations related to payroll services, particularly tax filing and reporting services.

In practice, many state tax authorities require their own specific authorization forms rather than accept a general or even federally approved authorization form (IRS Form 8655) specifically for employment tax payments and reporting. This causes problems and delays, as employers balk at having to sign additional – and from their perspective unnecessary – authorization forms. They have already signed a clear and binding statement of intent to authorize the service provider to sign and file all necessary employment tax forms in order to properly pay and report federal, state and local employment taxes.

Authorization Arrangements are Critical to Efficient Tax Administration

The IRS Form 8655 also authorizes the tax authority to disclose otherwise-confidential tax information to facilitate efficient and accurate tax administration. Specifically, payroll service providers seek to confirm key identification information, such as employer identification numbers and names or other posting elements; applicable tax rates (which can vary by employer and tax periods); assigned deposit schedules and other critical tax filing information that can help ensure that employment tax returns and reports are error-free.

Ideally, tax authorities should seek efficient options that recognize the low risk inherent in payroll tax reporting. This document discusses several issues and common practices of which state tax authorities should be aware in developing their own programs and policies.

Background

Authorizations for Reporting Agents

The IRS regulates payroll service providers (known to the IRS as "Reporting Agents") under Rev. Proc. 2012-32[1], among other regulations. These rules recognize that employment tax administration through a payroll service provider is considered services of a mechanical nature, as opposed to "Representation;" e.g., by a tax advisor. In such arrangements, taxes are merely calculated in accordance with applicable law, and remitted and reported on behalf of client employers. Client employers sign a clear authorization directing their reporting agent to file and pay all employment taxes as required, including any reconciliation filings, information returns (W-2s and 1099s), amendments and resolution of any related issues that may arise.

Reporting agents do not represent taxpayers, and are generally not attorneys, accountants, enrolled agents, actuaries or Retirement Plan agents. Reporting agents and employees of reporting agents do not exercise discretion or advise employers as to compliance with applicable laws. The industry is somewhat unlike the many other tax professionals with which tax authorities are more accustomed.

A modified IRS Form 8655 has been widely recognized as the national standard for authorizations for the payroll service provider industry and provides authority to file and amend employment tax related returns, make tax payments, confirm the accuracy of client data, and to call the agency to resolve issues and notices.

Best Practice - State agencies should accept IRS Form 8655.

Unlimited Powers of Attorney are not Appropriate

General Power of Attorney (POA) forms should be limited to those individuals or companies seeking to represent and act on *behalf* of employers (e.g., attorneys, CPAs, etc.). Payroll service providers, identified as Reporting Agents with the IRS, are limited in their authority and cannot represent an employer (find a list of limitations here.) A limited authorization, such as the Reporting Agent Authorization from the IRS is more appropriate for the services provided by payroll companies.

Best Practice - Payroll Service Providers should only need a limited power of attorney.

State Acceptance of the IRS Reporting Agent Authorization, Form 8655

As a best practice, most state tax authorities accept the IRS Form 8655, which is specifically designed to authorize employment tax payments and reporting. In signing the IRS form (or substitute form, details below) employers execute a clear and binding statement of intent to authorize the service provider to sign and file all necessary employment tax forms in order to properly pay and report federal, state and local employment taxes. The IRS form also authorizes disclosure of necessary tax information to facilitate efficient and accurate tax administration, which enables the tax authority to verify employer identification

[1] IRS Rev. Proc. 2012-32, https://www.irs.gov/pub/irs-drop/rp-12-32.pdf

numbers and names or other posting elements; applicable tax rates, assigned deposit schedules and other critical tax filing information to ensure error-free return processing. The 8655 also authorizes taxing authorities to send tax notices to reporting agents, and for reporting agents to be able to work with the tax administrator with the resolution of tax discrepancies and issues.

The IRS permits payroll service providers ("Reporting Agents") to modify the standard Form 8655 to include additional language for state and local tax authorities, thus reducing the number of forms that must be signed, collected, stored and transmitted or mailed to state agencies.

References:

- Standard IRS Form 8655
- IRS Publication 1167 authorizing approved changes to both the form name (to "Reporting Agent Authorization – State Limited Power of Attorney & Tax Information Authorization") and text in form (see Page 35)
- Example of approved modified Form 8655 that is widely accepted by IRS, and most state and local agencies (see Box 12 – expanded language for state and local authorizations)
- Examples of state agencies that accept the IRS Form 8655 as an acceptable authorization form (not an exhaustive list):
    - Connecticut Department of Labor
    - Hawaii Department of Taxation
    - Maine Department of Labor
    - Nebraska Department of Labor
    - New Hampshire Employment Security
    - New York Department of Labor
    - Virginia Department of Labor

Alternatives to Paper

Memorandums of Understanding (MOUs)

Tax authorities should carefully consider how to administer authorizations in next-generation electronic wage and tax filing and payment systems. This can be a good opportunity to reduce agency and employer workload, while also improving results and accuracy. NPRC members generally file and pay electronically, but in some states must mail paper authorization forms to permit pre-filing verification of critical data such as UI tax rates and Employer Identification numbers. This pre-filing verification step is a recognized 'best practice' as it serves to improve the accuracy of filings, reduces government costs and eliminates unnecessary correspondence with employers. A more comprehensive description of these pre-filing verification programs can be found here.

> True Electronic Filing is not just "electronification" of paper tax forms.
> Appropriate electronic filing systems should comprehensively include and facilitate ALL aspects of tax reporting, from registrations, authorizations, pre-filing data perfection (i.e., error prevention) and error resolution.

Almost no tax authority checks incoming wage or tax reports to determine whether the submitter is authorized to file the report in question. (A few have done so for a short time and reversed course. This approach is quite problematic, resulting in rejection of many otherwise-valid wage and tax reports.) Similarly, virtually no organization stops to check each incoming payment to determine whether the payor was properly authorized to make a payment. The risk is too low to justify the extensive workload that this will require.

For wage and tax reporting, and verification of tax rates and other key information needed to ensure error-free filings, we recommend a 'memorandum of understanding' (MOU) to replace the labor-intensive handling of paper authorization forms for each employer. An MOU is an agreement between an agency and a payroll service provider which certifies that the service provider has a signed authorization on file for each client which expressly grants the service provider the authority to sign and file wage and tax reports, and to receive otherwise confidential information such as UI tax rates. The service provider agrees to provide a copy of any authorization on request. This approach saves the agency from the considerable administrative workload involved in handling and tracking paper authorization forms for each client. Instead, the service provider would periodically provide the agency with an electronic file to identify their clients, and agencies respond by returning the current tax rate and any error conditions. An example MOU is linked here.

Payroll service providers are well-known 'trusted partners' with taxing authorities and have been filing and verifying critical attributes such as applicable tax rates and assigned deposit schedules, to our knowledge without incident, for over 40 years. The MOU approach is appropriate for next-generation tax systems. It would make little sense to implement sophisticated electronic filing systems predicated on 1940s-era handling of paper authorization forms for each employer.

Best Practice - When coupled with underlying and verifiable client-PSP agreements, MOUs are a secure and efficient authorization method for employers, state agencies, and PSPs.

Electronic Authorizations

If a Memorandum of Understanding (MOU) is not an option, electronic authorization is no longer only a future-state concept. The ANSI X12 'EPOA – Electronic Power of Attorney' schema effort described in earlier versions of this guide has moved from development into production on the workforce-agency side: in December 2024, NASWA added a POA Exchange to UI SIDES, letting employers, TPAs, and PEOs request and rescind authorization to represent an employer entirely electronically, with standardized rejection reasons and a 30-day rescission process (DOL Training and Unemployment Notice 14-24). No equivalent shared platform yet exists on the state revenue-agency side – each revenue agency would still need to build or adopt its own electronic authorization mechanism.

Best Practice – State agencies and PSPs should build on the SIDES POA Exchange model, and revenue agencies in particular should prioritize closing this gap rather than defaulting to paper POA processes.

Direct Employer Authorization of Third-Party Administrators (TPAs)

One recent approach is the creation of agency websites where employers set up an online account and then grant access to a third party, such as a payroll service provider, to act on their behalf, known as third-party administrator (TPA) access. These tools can be beneficial to help reduce paper authorizations and to allow self-service research to be performed (e.g., status of refund, confirmation of receipt of tax deposits, etc.). Some include functionality for service providers to download client listings with updated account status, tax rates, deposit schedules and other critical information.

A few tax authorities require each client to take action to register with the tax authority's new system and directly identify any payroll firm or other agent in order to file and pay on behalf of their clients. It is very difficult to convince all clients to take this action. From the client's perspective, they have already signed a clear authorization granting such authority, and it is up to the service provider to register this authorization with each applicable tax authority. One payroll service sent several letters over a six-month period and hired representatives to call their customers to guide them through the agency's website and authorization process, and still had a failure rate of 40% - 50%.

Further, employers often don't understand what access and authority their TPA needs or should have. In practice, clients have made many mistakes in the role assignment process; typically doing so too early and blocking a prior service provider from filing the last tax report for which they are responsible; giving the agent incorrect authorization levels (resulting in misrouted/delayed notices, or unlimited authority), or event authorizing the wrong TPA from a drop-down list of registered service providers.

Relatedly, if the employer cannot locate their representative in the agency's system, they should not be permitted to create a profile for a service provider. Some state systems have permitted this, resulting in many redundant and incorrect profiles for service providers. Once established, other employers can then select an incorrect service provider profile. The agency involved had to later delete multiple records and figure out which customers to assign to the intended representatives.

In any event, states should not reject otherwise valid tax returns or payments if an authorization isn't yet noted on the state's system. From a risk-mitigation perspective, national cybersecurity organizations have determined that receiving required reports and payments are among the lowest possible risks. States should always be cautious in erecting barriers to electronic filings and payments; which in effect make it harder to file electronically than in paper form. States should generally process such filings and payments, noting the apparent error and initiating notices to confirm the authorization.

Best Practice - Allow the payroll service to request access to their customers' accounts (customer EINs can be supplied electronically), with notice to the employer (from the tax authority, or payroll firm, or both), and employers can decline the authorization if they disagree. It should be automatically approved if no action is taken to decline it within a few days. This process has a success rate of over 99%. One state automatically approves the access and notifies the employer of the access assignment by letter giving the employer the additional opportunity to cancel.

TPA Authorization Date Considerations

With respect to employment tax, only one agent can be responsible for any given employer and tax period. However, two or more agents can be (and often are) responsible for the same employer at the same time, when the employer is in the process of switching to a different service provider. For example, payroll firm B becomes the new payroll processor for an employer beginning January 1, while the prior service provider, payroll company A, must still file a wage report and pay taxes for the fourth quarter, through January or February.

From a design perspective, systems should accommodate more than one agent for a given principal, but only with respect to different tax periods. Only one agent can file the employment tax return for a given tax period.

Some taxing authorities have tried to require agents to wait until after the last return has been filed by the prior provider before requesting authorization to their new client's account. This doesn't work well. In the above example, they would need to wait until February to request authorization, even though their service started on January 1, and in many cases must begin remitting taxes immediately. Ideally the new payroll service would prefer to establish access to their new client's account immediately so that they can confirm critical information prior to making their first deposits or filings. Delays in authorization results in errors in payments and filings.

Additionally, some states have tried to require a formal revocation of any prior service provider authorization before allowing a new authorization request to be processed. This has never worked. Businesses don't think to notify every government agency of these changes.

Clearly, however, any new client authorizations covering the same subject matter and tax period supersede prior authorizations with respect to the subject matter (forms and services), and time period covered. States should automatically supersede any prior authorization with respect to the subject matter, paying close attention to the effective tax period (starting date, usually the first day of a calendar quarter), without requiring a separate revocation of the prior authorization.

Best Practice - Automatically supersede prior employer authorizations without requiring a separate revocation of the prior authorization.

Signatures & Authorized Parties

Electronic Signature Requirements

The IRS has detailed instructions regarding requirements for both authenticating the representative that is signing the authorization, and also capturing their electronic signature. The Reporting Agent authenticates the identity of the authorized client/employer representative who will be electronically signing the authorization using one of the two solutions below (more information can be found on Pages 4 & 5 of IRS Publication 1474):

- Visually inspect a government-issued photo identification document. Note that the IRS currently requires the inspection to be completed in the physical presence of an authorized representative, but newer technology allows for identification using software applications on the user's phone or device.
- Contract with a third party provider offering commercial electronic signature authentication services to verify the identity of the taxpayer or their authorized representative. Such services must include a feature wherein some information known only to the taxpayer or their authorized representative (e.g., name, address, and truncated SSN of the taxpayer or their authorized representative) is obtained from the taxpayer or their authorized representative in a secure environment and passed to the third party provider for a return of a pass/fail identity authentication result to the Reporting Agent.

The Reporting Agent may secure and record an electronic signature using one of the following two methods below (See Page 5 & 6 of Publication 1474 for more detailed information):

- Capturing the signature of an authorized representative using an electronic stylus device in a Point of Sale (POS) environment.
- Presenting an authorized representative a checkbox agreeing that they are electronically signing Reporting Agent Authorizations (RAAs; i.e., Form 8655). The Reporting Agent must capture and record the date and time of the signature event and the IP address of the electronic device on which the electronic signature was captured.

Best Practice - Follow the existing IRS instructions on electronic signatures and use when permitted under state law.

Notarized and Witnessed Signatures

From the 1950s through the '70s, some agencies have used notarized or witnessed signatures as a way to validate the authenticity of the signature on an authorization form and reduce the potential for theft or fraud. This is clearly antiquated and inconsistent with current technology.

Notarizations and witnessed signatures require significant additional time from the employer, and often delay or prevent entirely the completion of specified authorization forms. As a result, payroll service providers are too often unable to secure from each client the required authorizations, resulting in errors and follow-up notices for invalid data (tax rates, deposit schedules, etc.). These paper-intensive

approaches are clearly inconsistent with current technology and serve as unnecessary barriers to efficient tax administration.

The emergence of electronic signature practices that validate the signer's identity, discussed above, has addressed this issue in a more efficient and cost-effective manner. NPRC members would be willing to explore and pilot alternatives to existing requirements, including common-sense alternatives to historic regulations which hinder electronic solutions.

Best Practice - Do not require notary or witness signatures, when permitted to do so under state law.

Authorized Individuals Named on Authorization Forms

We strongly support efforts to improve privacy and security for the taxpayers we mutually serve. However, some POA processes, as applied to the payroll reporting industry, would require an unreasonably high volume of submissions and revisions, even for a single client. Specifically, some states require a separate authorization for each employee of a service provider who may work on a particular account. Unlike most tax practitioner services with which tax authorities are familiar (e.g., CPAs, attorneys, enrolled agents), authorizations in the payroll services industry are Business-to-Business.

Thus, an employer authorizing a payroll firm effectively authorizes all employees of the firm to act on the company's behalf. Some states have asked for a new authorization whenever a different employee needs to work on a particular account. This process may be practical in the context of attorneys, accountants, enrolled agents and others who represent taxpayers for compensation, but it does not apply to payroll service providers.

Some NPRC members have several hundreds or thousands of employers as clients in a given state. They also may employ a large number of representatives who may attempt to contact a given state agency to resolve errors impacting their customers. One person might correspond with every state tax authority for many thousands of clients, and they may never call on behalf of any one employer more than once.

A minor modification to the POA would alleviate the burden while still meeting the agency's goal of improving privacy and security for employers. The suggestion is for the POA to reflect the corporate name of the reporting agent. If an agency also requires the name of agents that might be calling, the reporting agent could then submit an Authorized Caller List of individuals authorized under the POA to contact the agency. The list could be updated on a monthly, quarterly or as-needed basis. This approach would reduce the impact to employers, to the state agencies and to reporting agents, eliminating the need for new POAs anytime there is a change in staff, and anytime an employee works on a particular employer's account for the first time.

Best Practice - Use POAs that reflect the employer corporate name and permit PSPs to provide caller lists that the agency can use to validate authorized individuals.

Authorizations are Continuous until Terminated

Many tax authorization forms are limited to specific time periods; e.g., an attorney or accountant working on a specific assessment and tax period on behalf of their client.

In contrast, payroll service providers require authority to file, pay, and resolve related issues with the agency on an ongoing basis for the duration of their relationship with their customer. The authorization allows them to call the agency with relevant questions and to participate in periodic data exchange processes to maintain critical tax filing information. In this industry it is common for an employer to use a particular payroll service provider for ten years or more. To require an arbitrary end date for authorizations, or to expire authorizations after a year or two from the signature date creates more unnecessary paperwork for employers, payroll services, and agencies when the nature of these relationships often continue for many years.

Best Practice - NPRC recommends only expiring authorizations when the employer specifies an end date; when the employer revokes an authorization, or if the agency receives an authorization with a more recent signature date from the employer granting the authority to a new third party.

Contacting NPRC

NPRC members are very interested in working with all state tax authorities to develop efficient next-generation systems for wage and tax reporting, of which electronic authorizations will be a core element. 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.