**The PEO Model:**

*Accountant Frequently Asked Questions*

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**PEO Overview**

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1. **What is a PEO?**

   Professional Employer Organizations (PEO) enter into a co-employment relationship with clients, which allows them to share and manage certain employer-related liabilities and responsibilities. Clients outsource their human resources to the PEO and maintain control of their companies, while the PEO provides human resources services, employee benefits, payroll administration and workers’ compensation.

2. **What is Co-employment?**

   Co-employment is the contractual arrangement between the client and the PEO that allows the PEO to provide a full range of services and to transfer or share certain employer liabilities. Both the PEO and its client have certain rights and obligations with respect to the same group of employees.

   The PEO pays the employees, withholds and pays payroll taxes, maintains workers’ compensation coverage, provides employee benefit programs, provides human resources guidance, and provides worksite safety guidance. The client continues to operate its business as it did prior to the PEO relationship. The client in a PEO relationship does not forfeit or lose any of its management and supervisory rights over its own business.

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**ADP TotalSource clients continue to:**

- Have direction and control over the management and day-to-day operations of their businesses, including direction and control over their employees;
- Determine employee payroll wages and frequency of payroll;
- Manage their finances and bookkeeping; and
- Negotiate and enter into all types of contracts (non-competition agreements, leases, sales, etc.) as the client sees fit for its business
What is a Certified PEO*?

PEOs that are certified by the Internal Revenue Service (IRS) under the Small Business Efficiency Act (SBEA) are recognized as the employer for federal employment tax purposes. ADP TotalSource is a proud Certified PEO.

Working with a Certified PEO (CPEO) ensures:

1. Fiscal Ownership
   CPEOs are solely responsible for the payment of federal employment taxes. If a company utilizes a non-certified PEO that doesn’t pay their taxes, they could be liable for the unpaid federal employment taxes, late penalties and interest related to their employees.

2. Required Federal Standards
   Because CPEOs are solely responsible for the payment of federal employment taxes, they must meet specific requirements regarding tax status, background, experience, business location, financial reporting, and more.

3. Financial Guarantee
   The certification program also requires a PEO to post a bond each year of up to $1 million guaranteeing payment of its federal employment tax liabilities.

4. Tax Restart Elimination
   Certification eliminates the wage-base “restart” for certain payroll tax purposes for PEO customers that join or leave a PEO relationship mid-year.

5. Customer Eligibility for Tax Credits
   Certification allows customers of CPEOs to qualify for specified federal tax credits that they would be entitled to claim if there were no PEO relationship.

I don’t want my clients to give up control of their company; does that happen when my clients use ADP TotalSource?

You’ll find that your clients will actually gain more control over their business when they use ADP TotalSource. They will reduce administrative issues and details which provides them more time and control over the strategic, revenue generating initiatives that are top of mind. At the same time their employees can access quality employee benefits that motivate and increase employee loyalty.

If I have questions, or my client has questions, who do I reach out to?

You’ll find that your clients will actually gain more control over their business when they use ADP TotalSource. They will reduce administrative issues and details which provides them more time and control over the strategic, revenue generating initiatives that are top of mind. At the same time their employees can access quality employee benefits that motivate and increase employee loyalty.
Who is responsible for the employees’ wages and employment taxes?

ADP TotalSource assumes responsibility for processing payroll and for compliance with the rules and regulations governing the reporting and payment of federal and state taxes on wages paid to its employees. PEOs have long established their role as reporting income and handling withholding, FICA and FUTA. In 2002, the IRS issued guidance confirming the ability of PEOs to offer qualified retirement benefits. The Small Business Efficiency Act (SBEA) codifies the authority of PEOs who become IRS Certified to collect and remit taxes.

Who is responsible for state unemployment taxes?

As the employer for employment tax and employee benefits, ADP TotalSource assumes responsibility for payment of state unemployment taxes, and most states recognize the PEO as the responsible entity. Some states require the PEO to report unemployment tax liability under its clients’ account numbers, in this case the PEO can still manage this responsibility by depositing the taxes and providing the necessary forms.

If my client joins ADP TotalSource in the middle of the year, what are the impacts to the employer?

When employees are transferred from one U.S. employer to another U.S. employer at any time other than January 1, federal and state employment taxable wage bases will “restart.” Restart happens, essentially, because a change in employers will cause the wage base to be reset to zero. As a result, an employer may incur payroll-based taxes in excess of the annual wage base limitation that would have been applicable had the individual continued to be employed by a single entity for the entire year.

*Under the SBEA, Certified PEOs will have successor status for FICA and FUTA eliminating the wage base restart

If my client joins ADP TotalSource in the middle of the year, what are the impacts to the employee?

At the end of the year employees will be able to obtain a refund/credit for the overages paid for the year when filing their tax returns.

*Legislation subject to change due to the SBEA
**Q/A**

5. **If my client’s employees W2 says, “ADP TotalSource” how do we prove that they worked at their company?**

Employees can request copies of their back income tax records from the IRS, which should provide the places where they worked. Clients also have the ability to print a Verification of Employment in case an employee needs to verify employment with the client.

6. **How should a client of a PEO report co-employee wages and compensation on its federal corporate tax return?**

There is no direct guidance from the IRS on how a client should report co-employee wages and compensation on its federal corporate tax return. Some tax experts interpret Section 162 of the IRS Code, which generally gives an employer the right to deduct all ordinary and necessary business expenses, to permit clients of PEOs to deduct wages and other compensation paid to the PEO for co-employee wages as an ordinary and necessary business expenses. The deduction would include all amounts paid to the PEO such as co-employee compensation, employment taxes, benefits and service fees.

Prospects/Clients must consult with their own legal and tax advisors. It is important to understand that this is an interpretation and not a tax or legal opinion.

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**Reporting**

1. **How do I get access to my client’s payroll reports?**

   Each of your clients utilizing ADP TotalSource will be able to add you as an External Administrator. This will give you access to the payroll reports that are updated with each of payroll submission. This will also give you the ability to work with internal ADP customer service representatives.

2. **Do the reports for TotalSource differ from other ADP reports I’m used to?**

   Different ADP platforms have different reporting formats, however all relevant payroll data is provided. Your client’s dedicated payroll contact can help explain the payroll reports and also develop custom reports that can be saved for easy use.

3. **Can my client still have the general ledger feature currently provided by ADP?**

   TotalSource does not have the same General Ledger option that other platforms at ADP offer. Your client’s sales representative can walk through our reports to point out the information that previously posted to their GL. Many clients embrace the simplicity our platform provides due to the shift to our Federal ID from a tax perspective. This simplicity allows TotalSource clients to effectively post 1 number to their GL under “ADP Management Fee” that encompasses Gross Payroll, Taxes, Workers Compensation, Employee Deductions and our service fee.

4. **Where will my clients find the information relating to payroll, taxes, workers’ compensation and ADP’s administrative charge?**

   TotalSource clients receive an Invoice Report that summates each payroll. This single report provides totals by department, workers’ compensation class code and at the company level. This is the report most clients use to reconcile the per payroll debit from ADP which includes Gross payroll, Taxes, Workers’ Compensation, and the ADP service fee.
1. **How does TotalSource bill?**
   
   Clients of TotalSource are billed for all taxes and administrative fees on a per pay period basis. Benefits will be paid on a monthly basis on the 10th of the current month. The total [PEO Expense] paid to ADP TotalSource is a one line item expense per pay period that is typically entered as “employee services”. The total [PEO Expense] includes the payment of employee Wages, Workers’ Compensation and employment taxes including, but not limited to: FICA, FUTA, State Unemployment, and other applicable taxes.

5. **Some platforms at ADP cannot accommodate job costing and labor distribution. Can TotalSource?**

   Yes TotalSource technology is built off a core platform that has serviced clients for years and thus can accommodate Job Costing and Labor Allocation needs. Your client’s Sales representative can help to determine if information such as Job Costing should be kept inside payroll or the clients Accounting Package/ERP System. Should the decision be to have it inside payroll, we can work with the client’s dedicated Payroll contact to help facilitate.

6. **Tax Reports**

   As mentioned above, clients of TotalSource have their employment taxes paid under the Tax ID of ADP TotalSource. For that reason they will no longer need to file the federal returns (940/941), State Withholding, and Local Tax returns. Depending on their state they may have to file State Unemployment returns under the incumbent tax ID. If that is the case we will file the returns and provide you with copies for your records. Some states allow the client to adopt our State Unemployment Rate and ID and if this is the case you will not see a tax report.