

Small Business Efficiency Act (SBEA)

Frequently Asked Questions for ADP TotalSource® Clients



A more human resource.™

Q. What is the Small Business Efficiency Act (SBEA)?

A. The SBEA amended the Internal Revenue Code to treat professional employer organizations (PEOs), such as ADP TotalSource, that are certified by the Internal Revenue Service (IRS) as employers for federal employment tax purposes.

Certified PEOs (CPEOs) that meet certain conditions are solely responsible for the payment of federal employment taxes. To be a certified PEO, ADP TotalSource met certain financial review and reporting requirements, including the requirement to post a bond, up to \$1 million, to secure the payment of employment taxes.

Q. Why did ADP TotalSource apply for SBEA certification?

A. Becoming a CPEO means that ADP TotalSource meets the high standard established by the IRS for PEO companies. ADP TotalSource supports holding the PEO industry to high financial and operational standards and we believe that the SBEA is good for the industry and good for our clients.

As the market leader in the PEO industry, we very pleased to have met these government requirements to become a CPEO.

Q. Why is it important to me that ADP TotalSource is a CPEO?

- Not all PEOs are created equal. A CPEO is vetted and certified by the IRS.
- There are enhanced protections requiring CPEOs to assume certain financial responsibilities, and, more importantly, it gives business owners the confidence that their CPEO partner has met these IRS standards.
- As part of the certification criteria, a CPEO is required to post a bond to secure the payment of employment taxes. If a company utilizes a non-certified PEO that doesn't pay its taxes, the company could be liable.
- The FICA and FUTA wage base does not restart when a client joins or leaves a CPEO and CPEO clients will continue to qualify for specified federal tax credits.
- Worksite employees can be confident that their company has their best interest in mind by aligning with a best in class provider.

SBEA FAQ

Q. How does this change my prior relationship with ADP TotalSource?

A. This does not change the partnership you have with ADP TotalSource. You will continue to enjoy the value ADP TotalSource brings to your company with a dedicated Human Resources Business Partner, access to a larger suite of benefit offerings, and employee growth and development programs that allow you to provide more robust benefits and services to help attract and retain employees.

Q. Hasn't ADP TotalSource always been liable for payment of my company's federal employment tax as part of my services agreement? How does this affect that agreement? What was my liability prior to TotalSource becoming a CPEO?

A. Our Client Services Agreement (CSA) currently includes collection and remittance of payroll taxes on behalf of our clients as a core service. As such, TotalSource clients have always been contractually protected. This legislation confirms in federal law that a CPEO client that satisfies certain other conditions is not liable for payroll taxes.

Q. What is the impact to my employees?

A. There is no impact. However, your employees can be confident that their company has their best interest in mind by aligning with a best-in-class provider.

Q. What do I need to do?

A. Under these new guidelines, the IRS is requiring your signature on two documents so that you can continue to work with ADP TotalSource as a CPEO. ADP TotalSource will contact you directly to obtain your signature on these documents, if necessary.

These documents are:

- An addendum to your Client Services Agreement (CSA) which contains mandatory provisions describing the responsibilities of a CPEO and the rights of a client of a CPEO. Please note that you may have already signed this document if you began your relationship with ADP TotalSource after November 10, 2016.
- IRS Form 8973 notifies the IRS that you have a Client Services Agreement (CSA) with a CPEO and that the CPEO will file federal employment taxes on behalf of the client.