Gaining a competitive advantage through payroll tax registration

How automation can help accelerate client onboarding and increase revenue

Avalara
Tax compliance done right

Contents

DISCLAIMER

Tax rates, rules, and regulations change frequently. We hope you find this information helpful; however, this resource is for informational purposes only and does not provide legal or tax advice.

Introduction

A payroll company's customer can't run payroll. Not because the business is missing employee data. Not because of a software glitch. But because the customer lacks the right federal, state, and local payroll tax registrations.

For payroll companies like payroll service providers and human capital management (HCM) software providers, this gap creates a bottleneck that frustrates customers, strains support teams, and delays revenue.

Ensuring businesses pay required taxes to stay compliant is a core function of payroll and HCM providers. A single missing tax ID can grind payroll activation to a halt, leaving businesses unable to issue paychecks and even leading to penalties for noncompliance.

This guide unpacks payroll changes, like remote work and mergers, and the cascading consequences of these challenges for both clients and providers. It also explores how embedding an automated registration solution into the payroll software's system helps solve this problem and transform compliance into a competitive advantage.

Why aren't more businesses compliant?

Companies of all sizes find dealing with tax registrations challenging. Many small or midsize businesses lack in-house expertise. Tax registration is especially complex for large companies that do business in multiple jurisdictions.

Businesses need to register for a variety of federal and state payroll taxes including state income tax, unemployment insurance, family medical leave insurance, and state-mandated workers' compensation. Over 20% of states impose additional local payroll taxes such as municipal or school district levies that require separate registrations and filings.

Unfortunately, there's little uniformity in registration procedures. Each agency has its own forms, documentation requirements, and processing timelines.

Trying to track all these rules manually is burdensome and increases the likelihood of making a mistake.

Together, these obstacles prevent many businesses from obtaining all required registrations. The trickle-down effect creates a hard stop: providers can't remit payroll taxes to the authorities on behalf of their customers. Instead, they collect the taxes in escrow. This is why over 40% of small to midsize businesses incur at least one IRS penalty annually.

Several developments impacting the current business climate magnify this problem.

OVER

20%

of states impose additional local payroll taxes such as municipal or school district levies that require separate registrations and filings.

OVER

40%

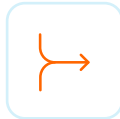of small to midsize businesses incur at least one IRS penalty annually.

Factors adding to tax registration complexity

The current business environment suggests the tax registration blockage isn't likely to clear up on its own. A number of causes increase the likelihood that payroll clients will trigger new registration obligations which, if not met, put them at risk of noncompliance.

ENTERING INTO MERGERS AND ACQUISITIONS

When a company undergoes a merger, acquisition, or corporate restructuring, the new or surviving entity may need to apply for or update payroll tax registrations at both the federal and state levels. Changes of ownership or legal structure can require re-registration even if the business remains in the same state.

ONBOARDING NEW BUSINESS UNITS

Expanding into new product or service lines under a different brand or launching a new division or subsidiary may require distinct payroll tax registrations. Spinning up temporary business operations for event-based hiring or seasonal surges may require a company to obtain new payroll tax IDs or update existing ones, depending on the duration.

HIRING REMOTE AND HYBRID WORKERS

The shift toward remote and hybrid work means employees can work from anywhere. As businesses hire staff in new locations, they become responsible for obtaining payroll tax IDs in new jurisdictions.

TRANSITIONING A CONTRACTOR TO AN EMPLOYEE

Reclassifying workers from 1099 contractors to W-2 employees requires businesses to comply with new payroll tax obligations and register with the appropriate tax authorities.

EXPANDING INTO NEW SERVICE AREAS

Opening offices in additional states typically requires separate payroll tax registrations with each jurisdiction. Businesses may also need to obtain new tax IDs for locations in different cities or counties within the same state.

Consequences of payroll tax noncompliance

Each registration can take days or weeks to process, delaying the time until businesses can compliantly run payroll. For businesses that miss a payday date, the fallout can be severe.

Missed payment

REGULATORY AUDITS AND FINES

States routinely conduct reverse-search audits to identify unregistered employers and may impose substantial fines plus interest. In extreme cases, criminal charges are pursued for willful noncompliance.

BUSINESS DISRUPTION

Missing filings can lead to stop-payment orders, bank account levies, and liens on corporate assets.

REPUTATIONAL DAMAGE

Businesses can incur reputational damage. Investors and other stakeholders can lose confidence if payroll errors or delays become public. Employees become frustrated when they don't get paid on time.

These problems divert leadership focus, drain resources, and can impact a company's ability to hire and retain staff. The cumulative risk underscores why registrations can't be treated as a simple clerical task.

Traditional approaches to improve compliance fall short

Historically, payroll providers and their clients have relied on three stopgap measures to improve compliance.

DIY GOVERNMENT PORTALS THAT REQUIRE BUSINESSES TO REGISTER DIRECTLY VIA TAX AUTHORITY WEBSITES

After manually uploading PDF forms, clients typically have limited visibility into the status of their registration request. Payroll providers can't file payroll or file returns until clients independently notify them of account approval.

CPA AND LEGAL SERVICES THAT BILL HIGH RATES TO HANDLE BASIC REGISTRATIONS

They may not fully understand payroll system requirements like filing frequency, account types, and ID formatting that are needed for data to flow correctly.

THIRD-PARTY REGISTRATION FIRMS THAT OFFER MINIMAL INTEGRATION INTO PAYROLL OPERATIONS

These firms typically require businesses to submit a registration via email or a portal and then wait for updates via separate channels. Payroll teams must manually track registrations across multiple tools and confirm details. Once a registration is complete, the new tax ID must be manually entered back into the payroll platform. If a tax ID is entered incorrectly, payroll filings can be rejected.

Prolonged employee onboarding is often the outcome. For payroll providers, these approaches can also lead to increased support calls and client attrition.

Automating payroll tax registration to deliver superior employee onboarding and reduce risk

Fortunately, there's a way for payroll HCM providers to reduce the risk of client noncompliance and improve customer satisfaction. Embedding an automated tax registration solution directly into their software or customer support process helps eliminate registration bottlenecks and deliver a superior onboarding experience from sign up to first payroll run.

Avalara Payroll Tax Registrations automates federal, state, and local tax registration processes through a cloud-based platform. The payroll provider client completes a single, dynamic questionnaire tailored to their entity structure and jurisdictions where they employ workers. The solution obtains the registration details and seamlessly feeds the ID numbers back into the payroll company's system via API integration. The streamlined process reduces errors and helps eliminate duplicate data entry.

The solution makes it easier to track the status of submissions. Registration requests are submitted electronically to each agency and real-time updates sync back into the payroll system.
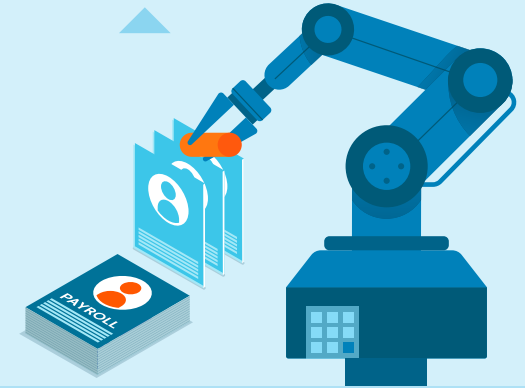
Any new hires, office relocations, or entity updates are automatically flagged for registration reviews and potential updates, helping keep the client in good standing.
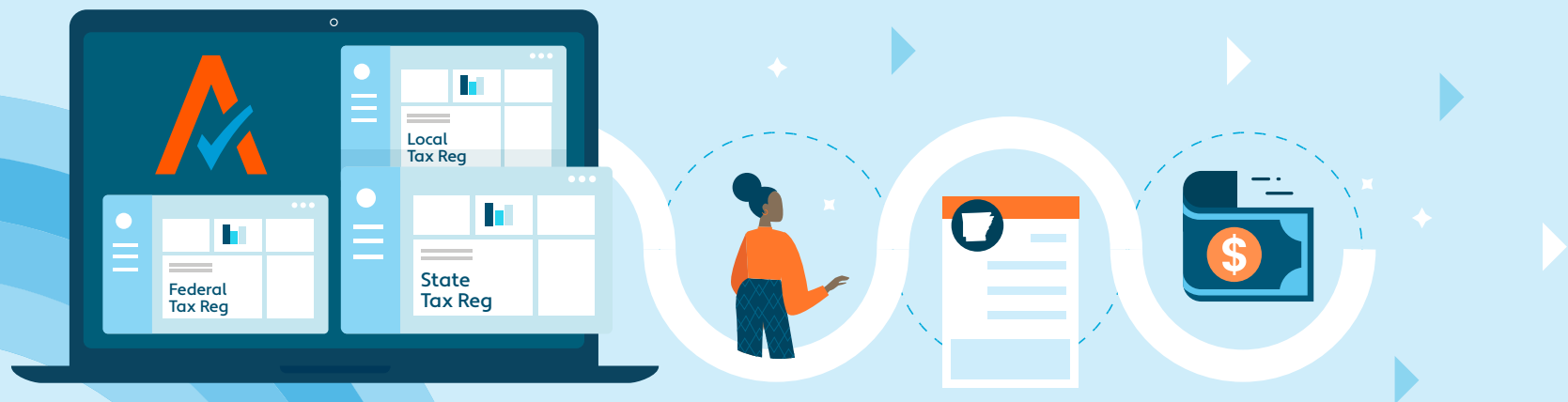
Benefits to payroll **clients**

Benefits to payroll **providers**

Outsourcing tax ID registrations to a payroll provider who uses an automated registration solution offers businesses many advantages, including:

- **Rapid payroll activation.** Speedy registration helps ensure employees are paid on time.

- **Improved risk mitigation.** Proactive registration submission guards against missing or expired registrations, reducing the likelihood of penalties for noncompliance.

- **Greater ability to scale.** As businesses grow or restructure, they can more easily keep up with payroll registration requirements. Registrations are flagged for review and approval.

- **More time saved from manual tasks.** Clients who are able to avoid wrestling with complex forms or follow-up calls can instead focus on core business priorities.

Offering automated tax registration services delivers strategic value for payroll providers, including:

- **Accelerated client onboarding.** Automating payroll tax registration helps eliminate the primary blocker to activating payroll clients. Payroll providers can spin up services faster and generate revenue sooner.

- **Strengthened market position.** Offering a full-service, end-to-end payroll and tax registration solution can set the provider apart in a crowded market.

- **New revenue streams.** Payroll providers can monetize tax registration capabilities as an add-on service. Bundled or tiered packages can drive incremental annual recurring revenue with minimal incremental cost to the provider.

- **Stronger client loyalty.** By solving an acute pain point, providers deepen client relationships and reduce the risk of losing customers to a competitor.

# IMPLEMENTING PRIVATE LABEL AVALARA PAYROLL TAX REGISTRATIONS

Avalara Payroll Tax Registrations allows payroll and HCM providers to offer the service under their own brand. Whether integrated via API or accessed through a partner portal, the entire client experience from onboarding to registration completion carries your logo and messaging. Maintaining your brand presence at every touchpoint reinforces trust.

Your company can get started with Avalara Payroll Tax Registrations in a few steps:

1

CHOOSE BETWEEN TWO INTEGRATION OPTIONS

A. An API connector for seamless system-to-system communication

B. A secure partner portal

2
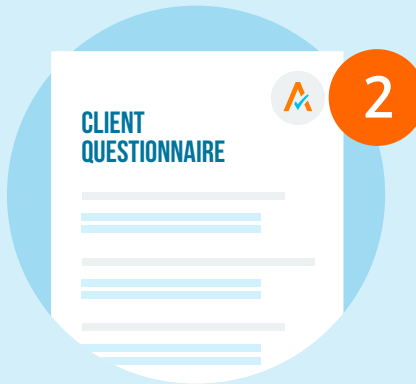
HAVE YOUR CLIENT FILL OUT A QUESTIONNAIRE

Once a client begins answering questions, the average time for completion is 15 to 25 minutes. If a client needs to register in more than one state, the single set of questions is still the only one needed for Avalara to prepare the forms, make payments directly to authorities, and follow up with jurisdictions to ensure everything is processed by them in a timely manner.

3

RECEIVE APPROVAL FROM AUTHORITIES – TYPICALLY IN 1 TO 2 BUSINESS DAYS

Avalara

Ready to unclog the payroll tax registration bottleneck?

Transforming payroll tax registration from a bottleneck into a breakthrough elevates the level of service payroll providers deliver. Businesses they serve can focus on what they do best, confident that payroll compliance is handled.

Speak with an Avalara specialist to learn more about the benefits of integrating **Avalara Payroll Tax Registrations** into the services you provide.

ABOUT AVALARA
Avalara makes tax compliance faster, easier, more accurate, and more reliable for 43,000+ business and government customers in over 75 countries. Tax compliance automation software solutions from Avalara leverage 1,400+ signed partner integrations across leading ecommerce, ERP, and other billing systems to power tax calculations, document management, tax return filing, and tax content access.

Visit **avalara.com** to improve your compliance journey.