

SMALL BUSINESS

In a Case of Missing Paychecks, Millions in Taxes Remain Unpaid

Small businesses caught in MyPayrollHR's collapse say tax payments are stuck in 'a black hole'



Bank accounts tied to Michael Mann's businesses are frozen, jeopardizing tax payments his firms handled for customers.

PHOTO: ZACH GIBSON/GETTY IMAGES

By Ruth Simon

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Millions of dollars destined for federal, state and local taxes remain stuck in limbo, more than a month after the collapse of a New York payroll processing firm.

The unpaid taxes are the latest headache for customers of MyPayrollHR and other payroll companies tied to Michael Mann. In a criminal complaint filed in September, federal prosecutors charged Mr. Mann with defrauding banks and other financial institutions of about \$70 million.

As Mr. Mann and his businesses came under scrutiny, bank accounts tied to his businesses were frozen. As a result, an estimated \$30 million deducted from businesses that used his payroll firms didn't reach employees or tax authorities in early September. The continuing challenges highlight the difficulty of recapturing funds when a payroll processor collapses and even knowing whether required tax payments were made.

An attorney for Mr. Mann didn't respond to requests for comment. He previously said his client was cooperating with authorities. Mr. Mann hasn't entered a plea in the case in U.S. District Court in Albany.

Most employees whose companies used MyPayrollHR have been made whole, but tax payments handled by another of Mr. Mann's firms remain in limbo.

Ed Daugherty, co-founder of two Fort Lauderdale, Fla., staffing companies, hired an accounting firm to determine whether taxes had been paid in the dozen states where they operate. The current estimate: \$68,840 in federal tax payments and more than \$40,000 in state and local taxes haven't been paid. "It's like a hurricane hit," said Mr. Daugherty, who spent most of September working to recover employee paychecks.

Sorting things out is particularly difficult because of the number of parties involved in payroll processing and the number of tax authorities. "It has become something of a black hole," said James Wright, co-owner of Bridge Technical Talent, a technology staffing company in North Kingstown, R.I., that figures about \$30,000 in taxes the firm owed weren't paid.

National Payment Corp. said it was unable to access about \$4 million in funds destined for tax authorities because the account holding those funds was frozen by Mr. Mann's bank, Pioneer Bancorp Inc. NatPay is one of the firms that handles the flow of tax payments through the ACH Network, used to move funds from one bank account to another.

In some cases, NatPay made required tax payments and then pulled back those payments because funds weren't available. "National Payment has lost money in this process, as have many businesses and individuals," NatPay Chairman George Hamilton said.

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In an interview, Pioneer Bancorp CEO Thomas Amell said the accounts frozen by the bank aren't set up as payroll accounts or tax accounts. "The assumption being made that Pioneer Bank is in control of tax payment funds or payroll funds, that narrative is misleading," he said.

Mr. Amell declined to say how much money has been frozen or when funds would be returned.

"There is a whole team of forensic accountants and lawyers trying to decode this entire incident," he said.

In Wisconsin alone, 188 businesses were swept up in Mr. Mann's troubles, said Peter Barca, secretary of the Wisconsin Department of Revenue. State officials are still trying to determine

how many businesses missed October tax payments. The state has told small-business owners it will waive penalties and has been able to reverse the withdrawal of \$280,000 in state income tax payments.

“There has been very little information as far as where we should go” to recapture money that didn’t make it to tax authorities, said Shelly Disterhaft, controller for Stainless Flow Technologies Inc., a 30-person manufacturer of custom piping and valves in Ripon, Wis.

Ms. Disterhaft discovered last month that \$19,000 destined for federal, state and local taxes was apparently stuck in a frozen bank account tied to Mr. Mann. Then, in early October, she learned that \$6,600 in state taxes had been paid and then pulled back. The \$6,600 pulled out of the account at the start of October was returned last week.

It could be a while before employers are notified that required tax payments weren’t made. The IRS generally matches tax payments submitted by employers against quarterly tax returns and then alerts businesses to any shortfalls, an IRS spokesman said.

The IRS spokesman declined to comment specifically about matters relating to Mr. Mann because of federal privacy rules. Missing tax payments are generally the employer’s responsibility, even if some of the money represents employee withholding, he said.

Some businesses that weren’t MyPayrollHR customers are having tax issues tied to Mr. Mann’s frozen bank accounts. That is because Cloud Payroll, another of Mr. Mann’s companies, processed tax payments for other payroll firms in which he had a financial interest.

For example, Southwestern Payroll Service Inc. estimates that more than \$5 million in tax payments for its clients may not have reached their final destination. The Tulsa, Okla., company has about 1,300 customers and remains in business. After Mr. Mann in 2017 took a controlling stake in Southwestern, it began outsourcing tax payments to Cloud Payroll, the company says.

David Rhoades, who was recently appointed as a receiver for Southwestern, said he has made a formal demand to Pioneer Bank to release customers’ tax funds. Pioneer said it is evaluating Southwestern’s claim.

“It’s a fairly small window” of time that the money wasn’t paid, Mr. Rhoades said, “but it’s a lot of dollars.”

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