

# IRS Payroll Tax Audit

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The Internal Revenue Service has unveiled the development of a National Research Program on employment Taxes. The program is the most significant audit initiative undertaken by the IRS in 25 years. During the six year program, which is scheduled to begin in February 2010, 6,000 companies will be examined. The selection process will be random and will include a broad cross-section of businesses of different sizes and legal entities.

The likely focus of the audits will be on employment tax returns (Form 941) for the 2007 and 2008 tax years. However, the scope of the audit can be expanded into any open employment tax year and any area of tax. The primary focus of the audits will be on the following issues:

- Worker Classification
  - Employee vs. independent contractor
- Fringe Benefits
  - Company cars, dues and memberships, travel, gift cards, athletic facilities, expense reimbursements, meals and entertainment, etc.
- Officer's Compensation
  - Loans, travel, non-qualified deferred compensation, stock based compensation, golden parachutes, reasonableness, etc.
- Payroll Taxes
  - Forms 941 / W-2/ 1099, deposit requirements, backup withholding, etc.

To ready themselves for a possible examination, employers should conduct their own employment tax compliance review. Special attention should be applied to issues identified by the IRS and any known areas of weakness within the organization. The review will give businesses the opportunity to identify areas where the rules aren't being followed and fix them.

In the event a company is selected for an examination, good IRS examination management practices should be followed including:

- ✓ Designate a clear "chain of command" for responding to IRS communications.
- ✓ Engage expert outside advisors at the start of the examination process.
- ✓ Request additional time to respond to document requests.

Hawkins, Ash, Baptie and Company, LLP can help you perform a compliance review and, if you are selected, assist during the actual IRS examination.

For more information, call your local HABCO office.

