



Subject: More Payroll Tax Audits

The IRS will do more random payroll tax audits than it first planned:

About 6,000 exams will be done over three years, up from 4,500 originally. The audits will start in November of this year. The IRS will use the results of the audits to select future payroll audit targets and refine its estimates of the tax gap. Agents will zero in on worker classification, executive pay and fringe benefit issues, and will check to see if expense reimbursement plans qualify as accountable plans.

And it is getting lots of leads on firms that may be misclassifying workers:

Tens of thousands of workers have filed Form 8919 since it first became available a little over a year ago. Taxpayers who believe that they are being incorrectly treated as contractors use the form to give the IRS information about their employers and to declare themselves employees so they can avoid paying self-employment tax.

WHAT TO DO?

- **It is essential that you review the fact patterns of “independent contractors” you pay to determine whether they should be on your payroll.** The more that you exercise control over a worker, the more likely they should be classified as an employee. If the IRS determines that you have paid employees as contractors, the penalties, back taxes and interest are harsh;
- Make sure you are accurately calculating “pre” or “post” tax deductions for employee fringe benefit programs. Make sure your Section 125 cafeteria plan is in writing. Also make sure you are correctly reporting employer-paid fringe benefits to employees, which include personal use of company vehicles and employer-paid Health Savings Accounts (HSAs); and
- Make sure you understand the differences between “accountable” and “non-accountable” expense reimbursement plans, and that you are calculating accurate taxes on “allowances”, as well as properly reporting expense reimbursements on annual W-2 forms.

AccuPay's CPP's and CPA's are experts in these specific payroll areas. Call us at 885-7600 if we can help you "audit-proof" your payroll procedures.

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