

HR | EXPERTS

E-ALERT

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an answer today!*

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IRS Plans Employment Tax Audits - May Trigger Other Audits

Starting November 2009 the IRS will begin auditing the employment tax records of businesses. This is the beginning of a three-year initiative targeting 5,000 employers to close the "tax gap" between taxes due and those paid as a result of a study conducted by the IRS. The results were reported in the July 2009 *U.S. Department of the Treasury, Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance*.

In response to this initiative, you may want to conduct a self-audit of employment taxes paid, including: income tax; FICA (social security and Medicare); and FUTA (federal unemployment tax). The focus areas for the IRS audits are reported to be: worker classification; fringe benefits; reimbursed expenses; and compensation of owner employees. See the following link for general information on Employment Tax requirements <http://www.irs.gov/businesses/small/article/0,,id=172179,00.html>.

This is not an area of expertise for HR|Experts; however, it is our goal to keep you informed of compliance issues that affect the employment relationship and may impact other areas of your business. We would encourage you to contact your CPA or your payroll provider if you don't do payroll internally to assist you with a tax audit.

According to resources, there is a Memorandum of Understanding between the IRS and other government agencies that allows a sharing of information. This may result in the triggering of audits by other agencies, like Employment Security Commission audits on unemployment insurance or Department of Labor audits regarding proper classification of workers. Employees improperly classified as independent contractors when they are actually employees would obviously mean the employer's portion of required employment taxes was not paid. The federal agencies also share information with state agencies that may be affected.

The government deficit may spur more agency audits than in prior years. Government agencies have had to cut budgets because of the financial crisis and are looking to increase incoming dollars. Protect yourself by conducting self-audits and making corrections where errors are found prior to agency audits.

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