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IRS CONDUCTS EMPLOYMENT TAX AUDITS

By Victor Sy, CPA

There used to be this dreaded Taxpayer Compliance Measurement Program (TCMP). It was referred to as “audits from hell.” IRS agents audited every item in your tax return, not just red flags. They not only pursued questionable items on your return; they pursued you. The objective was to get statistical data to help with the selection of future audits as well as procedures for conducting future audits. That was for income tax audits. TCMP was replaced by **NRP (National Research Program)**. IRS is now reinventing this type of audit to **employment** tax returns of business establishments. If you do not run a business entity, you don't have to worry about it. This is an issue for **business establishments** - sole proprietorships, corporations, partnerships, and LLCs - especially those with **independent contractors**.

1. The audits are being conducted under the **National Research Program (NRP)**.
2. The goal is to **collect data** that will help the IRS improve its compliance programs and better use of its resources.
3. NRP on **employment taxes** is currently under way.
4. The selection process was determined based on statistical samples.
5. **Actual examinations have already begun.** ☹
6. The audit phase will last for **three years (2009 to 2012)**.
7. IRS plans to conduct about **6,000 audits (about 2,000 for each year)**.
8. **Employment tax audits of businesses have also begun.**
9. It does **not** mean that an audited employer filed an incorrect return. You could just be simply unlucky.
10. **IRS is focusing on the following issues:**
 - Worker classification (employee vs. independent contractor),
 - Fringe benefits,
 - Officer's compensation, and
 - Reimbursed expenses.