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## 10 TIPS TO PROTECT YOUR COMPANY FROM WORKER RECLASSIFICATION AUDITS

By Victor Sy, CPA

1. Have independent contractors fill out and sign **W-9s** as a source of full name, social security or federal identification number, and address.
2. Use a **written agreement** with independent contractors.
3. **File all Form 1099-Misc on a timely basis.** Consistent and timely filing of 1099 forms is key to both Section 530 relief and access to the Classification Settlement Program.
4. Require independent contractors to submit **invoices**, **not time cards or time sheets**.
5. Require independent contractors to submit **competitive bids**.
6. Encourage independent contractors to carry their **own workers' comp** coverage.
7. Do not add independent contractors to **company benefits** such as medical insurances.
8. Avoid making **advances or loans** to independent contractors.
9. Keep vendor records **separate** from employee records.
10. Maintain **vendor files** that contain:
  - Form W-9.
  - Contracts and bids.
  - City license and county fictitious business name (DBA).
  - Workers' compensation insurance certificate.
  - Documented times when work was turned down by the worker.

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## IRS EMPLOYMENT TAX AUDITS (2010 2011 2012)

Employment tax audits under the dreaded National Research Program (NRP) **begin in February 2010**. It's the first IRS study on employment taxes in 25 years. The IRS believes this to be necessary because of significant changes in business practices with respect to employment taxes since the last IRS employment tax study in the 1980s.

The two main goals of the IRS National Research Program are to:

1. Secure **statistically valid information** for computing the employment tax gap, and
2. Determine compliance characteristics so the IRS can focus on the most noncompliant employment tax areas.

The IRS will randomly select **6,000 taxpayers for employment tax examinations - 2,000 each year for the next three years**. The examinations will be comprehensive in scope. Records pertaining to employment tax returns and issues will be subject to review. The IRS is advising employers to have all of their records available to expedite the examinations. Taxpayers who are selected for audit will receive notices describing the NRP process. It does not necessarily mean that an employer has incorrectly filed a return if an employer is selected for audit.