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IRS PLANS TO CONDUCT 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 will be 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 development.
4. The selection process is determined based on statistical samples.
5. The selection process has **already begun**. ☹
6. The audit phase will last for **three years (end of 2009 to 2012)**.
7. IRS plans to conduct about **6,000 audits (about 2,000 for each year)**.
8. Employment tax audits of businesses **commenced November 2009**.
9. It does **not** mean that an audited employer filed an incorrect return. You could just be simply unlucky.
10. **IRS will focus on the following issues:**
 - **Worker classification (employee vs. independent contractor),**
 - Fringe benefits,
 - **Officer's compensation, and**
 - Reimbursed expenses.

DEVELOPMENT: 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 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.