

Beware: The watchdog is awake. And he bites.

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IRS ENFORCEMENT

IRS beefs up enforcement to counter employment tax evasion

Sixty-six billion dollars of the estimated \$345 billion tax gap is attributable to uncollected employment taxes, a senior IRS official told the Second Annual American Payroll Association's 2006 Capital Summit in Washington, D.C. IRS Acting Chief, Employment Tax, Dan Lauer said that new compliance initiatives will help to close that gap. The IRS has hired more agents for this purpose and is focusing on particular areas of employment tax evasion, such as the underground economy.

More audits

"We don't get it all," Lauer acknowledged, discussing unreported and uncollected employment taxes, but emphasized that the IRS is adding resources to ferret out noncompliance. The stakes are huge because payroll-related deposits account for roughly 70% of all IRS tax collections or \$1.7 trillion.

This year, the IRS is making a special push to identify employers who pay their workers in cash to get around their employment tax obligations. The agency is also focusing on unreported tip income. Other enforcement targets include identifying employers that misclassify their workers as independent contractors and return preparer and promoter fraud.

The IRS hired about 50 new employees in 2005 to work on employment tax enforcement. "This is a significant boost to employment tax compliance. More agents mean more audits," Lauer said.

Lock-in letters

Last year, the IRS relaxed the Form W-4, Employee's Withholding Allowance Certificate, submission rules for employers. Under temporary regs (see CCH PAYROLL MANAGEMENT GUIDE Report Letter 1882, dated April 19, 2005) employers no longer have to submit withholding certificates unless instructed to do so by the IRS.

If the IRS determines that an individual's withholding is inadequate, based on the employee's Form W-2, Wage and Tax Statement, it will issue a "lock-in" letter to

Special Alert: IRS Cracking Down on Employment Taxes

The IRS recently decided to dramatically enhance its efforts to collect employment taxes. Among their primary targets: household employers who pay cash to try to avoid taxes.

Audits, back-taxes, penalties and interest can be financially devastating. The good news: it's all easy to avoid. For a little more than a dollar a day, we can ensure compliance and keep the mean old tax dog off your back. Plus, by paying legally, you can capitalize on tax breaks — often enough to cover all of your tax costs and then some.

If you have any questions, please don't hesitate to give us a call. We're here to help.

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