

Dear Client:

We are in an era of unprecedented budget crises at both the federal and state levels. Given this environment, the Internal Revenue Service (IRS) announced that it is implementing a national research program aimed at auditing payroll tax returns; the Department of Labor (DOL) issued a statement that it will be stepping up its audits of companies and putting more emphasis on trying to identify misclassified workers; and, finally, the State of Maryland intends to further expand its audits of unemployment tax returns in an attempt to identify misclassified workers.

In the event that additional payroll taxes are assessed, responsible persons, including owners and management personnel, could be personally liable for additional payroll taxes.

The IRS will be selecting employers randomly over the next three years and reviewing the following areas of employment practices:

1. Worker classification – Are you properly treating workers as employees as opposed to independent contractors?
2. Fringe benefits – Are you properly handling the reporting of fringe benefits provided to employees?
3. Officer's compensation – Are all required payments to officers for cash and/or services being properly reported as taxable wages to such employees?
4. Expense reimbursements – Are you properly accounting for expenses reimbursed to employees?

DOL announced that it is hiring 350 new employees, including 177 investigators and other enforcement staff. DOL will be reviewing independent contractors for proper worker classification. These audits could result in additional federal and state payroll taxes and possible penalties and interest along with increased employee benefit costs.

Finally, the Maryland program is aimed at employment tax returns that are actually filed. Maryland will be reviewing cash disbursements, specifically identifying payments to individuals who have been classified as independent contractors. For any individual who ends up being reclassified to employee status, the employer would have to pay additional unemployment taxes and possibly penalties and interest.

We have established a comprehensive compliance program and have assembled a team of dedicated specialists to assist you in reviewing your employment and benefit programs and are happy to answer any questions you may have.

Sincerely,

