

# Memo

To: **Tax Impact** Readers  
From: Bruce W. Breitweiser  
Date: March 1, 2010  
Re: IRS Audit Initiative

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Our Tax Impact readers were notified a year ago of the IRS initiative to look at employment classifications. This is the ongoing initiative to classify independent contractors (1099 reported) as employees (W-2 reported).

The IRS broke the news that they are going to audit 6,000 employers for employment tax compliance. They are going to look for issuance of Forms 1099, proper issuance of Forms W-2, classification of workers, compensation to officers (too much in a C corporation, or not enough in an S corporation), and immigration status.

This is a very large sample, and the initiative is being joined by the Illinois Department of Revenue and the Illinois Department of Employment Security (unemployment tax). We are starting to see some of our clients undergoing these audits.

As reported last year, we anticipate a major thrust of these audits is to classify independent contractors as employees. This will generate additional payroll tax liability on the business tax returns, an ongoing liability to withhold and remit taxes, and quite likely asserted penalties for not having withheld properly on these workers in the past. The dollars can become significant rather quickly.

If your business is notified regarding an employment audit, please recognize there is documentation and arguments that can be presented in your favor.

My Firm is ready to look at any exposure you may have, or address the situation more directly with the circumstances of your business.

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