

INDEPENDENT CONTRACTOR V. EMPLOYEE TAX CRACKDOWN

The Internal Revenue Service is joining with more than two dozen states, including VIRGINIA, in an intensified effort to crack down on employment-tax violations. Among the key issues is whether a worker should be classified as an employee or an "independent contractor."

The 2010 Federal budget assumes that the federal crackdown will yield at least \$7 billion over 10 years.

The IRS may be using computers to crack down on companies that pay independent contractors, instead of treating them like the employees they may actually be. Apparently they are using a system to flag companies that have more than five workers getting 1099s, are paid more than \$25,000, and who did not report any other income. If your company fits that bill, make sure that you aren't paying people under the wrong classifications so you can avoid the audit, interest and penalties.

For example, Fed Ex just had to pay \$319 million in back taxes and penalties for just one year.

If you are classifying workers as "Independent Contractors" we suggest you contact us to review the facts of your particular arrangement.