7 Things

Small Business Owners Should Know About Payroll Tax Problems

Past due payroll taxes can cause you to lose your business and in some cases, your freedom. The IRS is focusing increased tax compliance efforts on small businesses so it is important to know the common payroll tax audit triggers and learn how to avoid severe IRS penalties, huge tax debt and federal criminal investigation.

1. Small businesses are the most likely target of increased tax compliance enforcement

Small business owners have been identified by the IRS as the largest source of uncollected taxes. And because they are known to be big tax evaders, the IRS tends to focus their enforcement efforts on small businesses, especially during economic downturns.

2. You can lose your business due to extremely aggressive IRS collection tactics for past due payroll taxes

When it comes to payroll tax debt, the IRS collection Revenue Officer has unyielding power and authority. They have the power to padlock your front doors, putting you out of business, without obtaining a court order. They can seize your machinery and equipment. They can contact your customers, and if your customers owe you any money, the IRS will intercept these funds through their powerful levying authority. You must take immediate action to deal with a payroll tax issues, or you will find yourself out of business.

3. Payroll tax penalties can add up quickly and generate huge tax debt

The penalties assessed on delinquent payroll tax deposits or filings can dramatically increase your total tax bill. Whether you operate your small business owners as a sole proprietorship, corporation, or LLCs, the taxes you owe can cause you to lose your business. There are three major penalties you can be hit with (failure to file, failure to deposit, and the failure to pay), which can add up to about 33% plus interest if you don't pay in just 16 days after you have filed the 941 (Payroll Tax Return) past the due date!

4. Not filing or paying your payroll taxes can be considered a federal crime.

The IRS can refer your case to the Criminal Investigation Division and ultimately to the Department of Justice if they can prove that you intentionally (very low thresholds) didn't file and/or pay.

5. Borrowing from payroll taxes is against the law.

Many small and mid-size businesses use the money they collect from payroll taxes to pay their operating expenses. The money collected from employees to pay their share of federal withheld tax, FICA and Medicare (Social Security) does not belong to the business and must be accounted for and paid to the government. Generally, one must make a federal tax deposit (by tax filing service, phone, or in person at a bank) 3 days after the pay date of the pay roll checks.

6. The IRS can come after business owners individually for payroll taxes owed.

The IRS can access what is called the Trust Fund Recovery Penalty (TFRP) against owners and shareholders. The IRS is the only creditor on the planet that can "pierce" the corporate veil and go after individuals, which can be a very scary situation.

7. What do I do if I get audited?

If you owe payroll taxes, you need to get expert professional help before it's too late. Representing yourself before the IRS would be like going to court without a lawyer. And you do not want to take any chances when dealing with the IRS.

You need the help of experienced Tax Attorneys and/or a Certified Tax Resolution Specialist who have experience negotiating hundreds of these cases. They can defend you and advise you on viable options including Payment ("stepped") plans, Offers in Compromise, Computational Abatement of Penalties, Abatement of penalties due to reasonable cause, and analyzing the Statute of limitation to assess.

For more advice and information on payroll tax debt and how to get professional help if you're in trouble with the IRS, visit bill@federaldirecttaxny.com. for a free tax relief consultation. Or, call me now at (631) 943-2600.