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## IRS Launches a Multi-Year Random Audit Program on Employment Tax Returns

Recently the IRS announced that it will begin conducting detailed, random employment tax audits of companies in November 2009. A representative with the IRS Small Business/Self-Employed (SBSE) Division stated that the government's purpose during these audits will be to scrutinize employers' treatment of workers as either employees or independent contractors, employers' executive compensation policies, and certain other employment-related matters.

Unlike typical employment tax audits that often result from errors contained on an employer's tax return, the new initiative is authorized under the IRS National Research Program (NRP), which allows IRS audits to be conducted by a random statistical sample so that the IRS may review taxpayer reporting trends.

The IRS stated that it will conduct roughly 2,000 random audits per year over the next three years—a total of at least 6,000 audits—and that it has already begun selecting companies to be audited. The IRS announcement noted that although these random audits may target any reporting aspect of the tax return, the primary focus will be to verify whether the taxpayer has complied with the relevant employment tax law concerning:

- Worker classification (employee vs. independent contractor);
- Executive compensation;
- Fringe benefits; and
- Reimbursed expenses.

As the IRS audits are looming, we are advising our clients to revisit their employment tax policies, especially concerning the four areas described above, in part because the relevant law and regulations may have changed since the last time companies reviewed their policies.

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