

Eli's Rehab Report

NEWS BRIEFS: Watch for IRS Scrutiny This Year

Are you keeping your practice tax-law compliant? The Internal Revenue Service recently indicated it will perform random audits on businesses (including health care providers) starting in late 2009.

Auditors will look for compliance to certain payroll tax and compensation-related rules. "This new compliance examination program is part of the IRS National Research Program (NRP) and will involve the examination of approximately 6,000 businesses over three years," according to a notice recently posted on Minneapolisbased Larson Allen's Web site.

The IRS will audit four primary areas, according to Larson Allen:

- Worker classification: Sort out employees vs. independent contractors. For example, do you have workers receiving 1099s as independent contractors who regularly perform services under your direction? "That may raise a question about employee status," Larson Allen says. "And, as a result, some fringe benefits may be discriminatory, because not all employees were properly covered."
- Fringe benefits: Make sure you're making the proper adjustment for the personal use of business vehicles and complying with discrimination standards for fringe benefits.
- Officer compensation: The IRS may pursue unreasonably low compensation paid by closely held S corporations or excessively high compensation paid by closely held C corporations.
- Reimbursed expenses: This IRS will make sure businesses are following the "accountable plan" rules. For example, you can't offer tax-free reimbursements, such as travel expenses, unless the employee specifically documents them (as opposed to flat dollar or percentage allowances).

"Businesses should review their compliance before these exams begin," says **Colette Carlson**, tax principal at LarsonAllen. "Those with potential issues can shore things up in advance of these audits."