

Employment Tax Schemes – A Way to Save Money and Land in Prison

Whether a business owner has a staff of one or one thousand, they are required to pay employment taxes for themselves and their employees. These taxes consist of federal income tax withholding, Social Security and Medicare taxes and unemployment taxes, as well as any withholding requirements mandated by their state. Failing to pay these taxes can result in steep fines or even prison sentences, and Better Business Bureau is advising business owners to ensure they are fully complying with tax law and not unknowingly ignoring employment taxes.

“Businesses that fail to properly withhold employment taxes from worker’s paychecks or neglect to file and pay employment taxes offer a variety of reasons,” said Steve Cox, BBB spokesperson. “Unfortunately, some business owners claim ignorance of the law. But others might say they are ‘borrowing’ the money for awhile, intending to pay it back later. Some collect and decide to keep the tax because of temporary financial difficulties. Still others might blame disreputable third-parties who manage their finances.”

BBB notes that in January 2008 alone, four U.S. business owners were fined as much as \$4.2 million and received prison sentences of up to 48 months for failing to pay employment taxes. Some paid their employees under the table or developed elaborate schemes to avoid paying employment taxes.

BBB encourages business owners to be intimately involved in tax filing and payment processes – including knowing all of the details if a third-party is handling the process on behalf of the business.

Also, BBB is advising businesses to be aware of six common ways companies have gotten into hot water for employment tax non-compliance.

Hiring unreliable third-party payers

Most payroll service providers and professional employer organizations provide upstanding service. But there are some less-than-reputable third-party payers who fail to pay the collected taxes to the IRS. Employers should check with BBB (www.bbb.org) to find a trustworthy third-party payer, and once hired, regularly verify that payments are being made on their behalf.

Believing frivolous arguments

Unscrupulous promoters use misleading arguments to encourage businesses to avoid paying employment taxes. Don’t fall victim to incorrect interpretations of tax laws or the improper use of Form 941c to attempt to secure a refund of previously-paid employment taxes.

Offshore employee leasing schemes

Don’t do business with shady promoters affiliated with offshore companies who misuse the otherwise legal business practice of employee leasing. Consult with reputable legal and tax experts before entering into employee leasing arrangements.

Misclassifying worker status

Don’t be tempted to incorrectly treat employees as independent contractors to avoid paying employment taxes. If the employer has the right to control what work will be done and how it will be done, the worker is an employee.

Paying employees in cash

There is nothing wrong with compensating an employee in cash, as long as the business recognizes that employment taxes are owed regardless of how the employee is paid.

Filing false payroll tax returns

Preparing false payroll tax returns or understating the amount of wages on which taxes are owed is illegal.

For more trustworthy advice from BBB on filing your business taxes or other business management best practices visit www.bbb.org.