

IRS Compliance

FOR IMMEDIATE RELEASE

Frankfort Kentucky (June 25, 2004)---A major Internal Revenue Service (IRS) reorganization in 2001 produced a structure for the first time, wherein the nation's 85,000 public employers are uniquely identified. The IRS dedicated one new division to provide services and perform tax compliance functions exclusively for public sector employers.

The IRS Federal, State and Local Government (FSLG) component's primary roles include outreach training, client liaison and compliance activities. These areas include employment tax issues, fringe benefit/employee business expense reporting, Forms W-2/1099 reporting, non-resident alien reporting and worker classification.

FSLG recently announced a compliance program for its clients--federal, state and local government employers. Compliance activities now underway entail the IRS conducting compliance checks, compliance reviews and examinations (audits). FSLG estimates that 75% of its 2004/05 resources will entail compliance activities.

Each government agency in Kentucky is responsible for compliance with tax withholding and reporting requirements for its employees. Agencies should be aware of these specific areas of IRS scrutiny: proper application of social security and/or medicare coverage, treatment of individuals with personal service contracts, treatment of employee fringe benefits, Form 1099 reporting and retirement/benefit plan administration.

Agencies must be consistent in the treatment of withholding and reporting of employment taxes from remuneration paid via personal service contracts with individuals. Whether an individual is an "employee" for federal tax purposes is based on the degree of control that the agency may have the right to exercise over the contract holder.

Fringe benefits for government employees include, but are not limited to, personal use of government vehicles, personal use of cellular phones/pagers, meal reimbursement without overnight travel, moving expenses and certain uniform allowances.

Agencies must properly apply the myriad of coverage rules applicable to social security and/or medicare withholding. The Division can assist agencies with proper interpretation of their coverage agreement and withholding responsibilities.

Agencies must file an information return for each calendar year with respect to certain payments made during the year in the course of its trade or business. For example, Form 1099-MISC is required to report payments of \$600 or more to persons not treated as employees (e.g., independent contractors) for services performed for the agency.

The Division of Social Security has links to IRS and Division compliance resource to assist agencies in complying with requirements. See the Division's web site at <http://sssa.ky.gov>.

It is critical that each agency review its treatment of fringe benefits, personal service contracts with individuals, employee reimbursements and information return reporting to assure that full compliance with all IRS reporting requirements are met. Failure to report and withhold when mandated by tax law causes agencies to be out of compliance. This leaves the agency and its employees vulnerable to IRS audits and various compliance remedies. Remedies include, but are not limited to, tax assessments, interest and penalties.

This fact sheet was designed to provide awareness of social security coverage and reporting responsibilities for Kentucky governmental employers. This fact sheet should not be cited or used as authority with respect to federal employment taxes. The Internal Revenue Code and the Social Security Act, along with the associated regulations, rulings and case law, are the only valid citations of authority.

For questions on social security coverage for a Kentucky governmental employer - Send an E-mail to the [KY Social Security Administrator](#)

Division of Local Government Services
Social Security Coverage and Reporting Branch
200 Fair Oaks Lane, Third Floor-Station 11
Frankfort KY 40601
Phone: 502/564-3952
Fax: 502/564-2124

For questions on social security benefits or social security cards - Send an E-mail to the [Federal Social Security Administration](#)

Social Security Administration (SSA)
1-800/772-1213

[Click here for a list of SSA offices in Kentucky](#)