



Avoiding an California Employment Audit

The Employment Development Department (EDD) conducts payroll tax audits of businesses operating in California. Here are some triggers that cause a company to get audited:

1. The 1099 independent contractor (IC) **files an unemployment claim**. This creates suspicion because ICs are NOT eligible for unemployment.
2. The 1099 IC **files a workers' compensation or disability claim** against the company. If someone is truly an IC, they should carry workers' comp and disability insurance on themselves because they are not eligible through an employer.
3. A worker **receives a W-2 and a 1099 Form from the same employer in one year**. This happens when they are converted from a 1099 IC to a direct hire of the company. But if they performed the same work as a 1099 IC and a W-2 employee, the IRS may wonder why they were not classified as an employee all along.
4. The worker **files a complaint with the Department of Labor's Wage and Hour Division**. With all the information out there about misclassification, workers are more savvy than your clients may think. They can blow the whistle if they believe they've been misclassified.
5. The worker feels they are being improperly treated as a 1099 IC. As a result, they **file a Form SS-8** with the IRS for their own classification determination or files a Form 8919 (Uncollected Social Security Tax and Medicare Tax on Wages) with their personal income tax return.
6. **The IRS is anonymously alerted** about the worker or the employer not paying taxes.

For more information on the CA Employment Development Department Audit process visit:

http://www.edd.ca.gov/pdf_pub_ctr/de231ta.pdf

You can get in compliance by using us to place your 1099s on contract through us. They will get W2s, be eligible for benefits and be covered under workers' compensation. And you will avoid audit trigger #3 above.

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