



Tax & Business Alert

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COULD YOU BE HIT WITH THE TRUST FUND RECOVERY PENALTY?

If you own or manage a business with employees, you could be personally responsible for paying a harsh tax penalty. It's called the Trust Fund Recovery Penalty (TFRP). It applies to Social Security and income taxes, which must be withheld from employees' wages.

These taxes are government property employers collect and hold in "trust" for the government until payment. If the funds aren't properly handled, the IRS can impose a TFRP equal to 100% of the unpaid taxes on *each* responsible party. Consequently, the penalty amounts can be significant.

A PENALTY WITH A LONG REACH

The TFRP is among the more dangerous tax penalties not only because it's large but also because it applies to many actions and people involved in a business — and the IRS aggressively enforces it. Here are some questions and answers to help employers avoid incurring the penalty:

What actions are penalized? The TFRP applies to willful failures to collect or truthfully account for and pay over Social Security and income taxes required to be withheld from employees' wages.

Who's at risk? The IRS can impose a 100% penalty on anyone "responsible" for collecting and paying taxes. This includes corporate officers, directors, shareholders, partners and employees with such duties. Even voluntary board members of tax-exempt organizations may be liable under certain circumstances. Sometimes, responsibility has been extended to family members close to the business, attorneys and accountants.

How is responsibility determined?

Responsibility depends on status, duty and authority. Anyone with the power to ensure taxes are paid can be held liable. Multiple people within a business can be deemed responsible — and each is at risk for the full penalty. If you know unpaid payroll taxes exist and have the authority to pay them but prioritize other payments instead, you could be deemed a responsible person.

While a taxpayer held liable may sue others for contribution, this must occur after paying the penalty in full. Such lawsuits are entirely separate from the IRS's collection process.

DEFINITION OF "WILLFUL"

Willful actions don't require intent to evade taxes. The IRS defines "willfully" as knowingly prioritizing other



WHAT CAN HAPPEN?

A recently decided U.S. District Court case illustrates the perils of not paying over employment taxes to the IRS. The case involved the owner of a home care services company. His duties included withholding employment taxes from employees' pay. Over five quarters, he paid part of the taxes due, leaving an unpaid balance of \$1,177,947.

He was ultimately charged with a Trust Fund Recovery Penalty of 100% of the owed amount and sentenced to 12 months and one day in federal prison. The conviction stemmed from his willful failure to pay, evidenced partly by using company funds for personal expenses. (Office of Public Affairs IPress Release Number: 24-1594)

expenses over withheld taxes. For example, bending to pressure to pay other bills instead of taxes is considered willful behavior.

Delegating actual tax responsibilities is no defense. Failing to deal with tax tasks can also be deemed willful.

BORROWING IS NEVER AN OPTION

Under pressure, it may be tempting to “borrow” from a tax withholding fund to pay an urgent expense. But don't do it. All funds withheld from employee paychecks for tax purposes must be paid to the government in full and on time. Otherwise, you risk owing a hefty 100% TFRP. Contact us with any questions. ■

NEXT-LEVEL GROWTH: UNLOCKING YOUR BUSINESS'S FULL POTENTIAL

After successfully navigating the start-up phase, your business has a strong foundation for growth. At the growth stage, business and financial advisory services become essential. Focus on these two key areas to elevate your company to the next level.

1. FINANCIAL AND TAX REPORTING

Businesses in the growth stage usually have more sophisticated financial reporting needs than start-ups. As a result, those who previously relied on cash or tax-basis accounting methods may need to graduate to accrual-basis methods and start following U.S. Generally Accepted Accounting Principles (GAAP).

Lenders and investors may require CPA-prepared financial statements, which include the following (listed in increasing level of assurance):

- Compilations,
- Reviews, and
- Audits.

Audited financial statements are the gold standard in financial reporting, required for companies regulated by the Securities and Exchange Commission (SEC). However, compiled or reviewed financial statements may suffice for many closely held businesses in the growth stage.

Audits involve a higher level of scrutiny to ensure financial statements are free from material misstatements and comply with GAAP. This process includes analytical testing, asset inspections, third-party verifications, and



evaluations of internal controls, with auditors reporting any weaknesses.

Once a business is profitable, federal (and, in many cases, state) taxes typically apply to company income — or, if it's not a C corporation, the income passes through to owners and is taxed at the individual level. Regular tax planning meetings with financial professionals are crucial to identify strategies for reducing tax liabilities and preparing for tax law changes. These meetings help optimize your tax position both now and in the future, ensuring your business stays financially sound.

2. WORKING CAPITAL MANAGEMENT

Cash shortages are common for businesses during periods of growth. The main culprit is the “cash gap” — that is, the time between:

- When your business must pay suppliers and employees, and
- When it receives payment from customers.

For businesses that make or build products from scratch, the time to convert materials and labor into finished goods, sales and (finally) cash receipts can be significant.

A line of credit can alleviate seasonal or temporary cash crunches. Before approving credit applications, lenders typically request financial statements, tax returns and updated business plans. In addition, business owners in the growth phase normally must sign personal guarantees for business loans.

You also may need to apply other cash management techniques that target the following three components of working capital:

1. Receivables,
2. Inventory, and
3. Payables.

Professional advisors can assess your working capital metrics, benchmark performance against competitors, and recommend strategies to improve your business's financial efficiency and competitiveness. These might include accelerating collections, optimizing inventory levels, maintaining safety stock, and negotiating better supplier terms.

ASK THE PROS

Companies need guidance from experienced professional advisors as they mature. Do-it-yourself accounting, tax and business planning can result in frustration and missed opportunities. Discuss strategic growth plans with us if you haven't done so already. We can help you determine the optimal path forward based on your business and personal situation. ■

IT MAY NOT BE TOO LATE TO REDUCE YOUR 2024 TAXES

If you're preparing to file your 2024 federal income tax return and your tax bill is higher than you'd expected — or your tax refund is smaller than you'd hoped — there might still be an opportunity to change it. If you qualify, you can make a deductible contribution to a traditional IRA until the filing date of April 15, 2025, and benefit from the tax savings on your 2024 return.

WHO'S ELIGIBLE?

You can make a deductible contribution to a traditional IRA if:

- You (and your spouse if you're married) aren't an active participant in an employer-sponsored retirement plan or
- You (or your spouse) are an active participant in an employer plan, but your modified adjusted gross income (MAGI) doesn't exceed certain levels that vary by filing status.

For 2024, if you're married, filing jointly and covered by an employer plan, your deductible IRA contribution phases out over \$123,000 to \$143,000 of MAGI. For single filers or those filing as head of household, this phaseout range is \$77,000 to \$87,000. It's only \$0 to \$10,000 if you're married and filing separately. If you're not an active participant in an employer-sponsored retirement plan, but your spouse is, your deductible IRA contribution phases out with MAGI between \$230,000 and \$240,000.

Deductible IRA contributions reduce your current tax liability, and earnings within the IRA are tax-deferred. However, every dollar you take out will be taxed in full (and subject to a 10% penalty before age 59½, unless an exception applies).



Roth IRA holders may also contribute to their accounts until April 15, though these contributions aren't tax deductible, and some income-based limits apply. Withdrawals from a Roth IRA are tax-free if the account has been open for at least five years and you're 59½ or older. Certain withdrawals are tax-free even before age 59½ or within the five-year period.

HOW MUCH CAN YOU CONTRIBUTE?

If eligible, an individual can make a deductible traditional IRA contribution of up to \$7,000 for 2024. The contribution limit is \$8,000 for those age 50 and up by December 31, 2024. If you're a small business owner, you can establish and contribute to a Simplified Employee Pension (SEP) plan up until the due date for your return, including extensions. For 2024, the maximum SEP contribution is \$69,000.

For more information about IRAs or SEPs, including additional strategies to reduce your 2024 taxes, contact us or ask about it when we're preparing your return. We can help you save the maximum tax-advantaged amount for retirement. ■

FILE YOUR FBAR ON TIME TO AVOID PENALTIES

Any U.S. person with a financial interest in or authority over foreign financial accounts may be required to file a Report of Foreign Bank and Financial Accounts (FBAR). An FBAR is required if the aggregate value of the accounts exceeds \$10,000 at any time during the calendar year. FBARs are due April 15 of the following calendar year, though an automatic extension is allowed.

DEFINITIONS

For purposes of FBAR requirements, here are the definitions of some key terms:

U.S. person. This includes U.S. individuals (adults or children), resident aliens, and specific entities, such as corporations, partnerships, trusts and limited liability companies.

Foreign financial account. An account is considered foreign if maintained in a bank outside the United States, even if the institution is a U.S. bank.

Financial interest. A U.S. person has a financial interest in a foreign financial account if he, she or it is the owner of record or holder of legal title, even if the account is for the benefit of another person. Financial



interest may also exist if the owner of record or holder of legal title is one of several entities controlled by or on behalf of a U.S. person.

PENALTY AMOUNTS

Civil penalties for non-willful violations can exceed \$10,000 per violation. As of January 2024, this amount adjusted for inflation is \$16,117. Civil penalties for willful violations can range from \$100,000 (adjusted for inflation, \$161,166) to 50% of the account balance at the time of the breach.

The FBAR rules can be complex. Contact us with questions. ■