

IRS SIMPLIFIES TAX DEPOSIT RULES FOR SMALL BUSINESS

WASHINGTON – In a step to simplify a major area of tax administration, the Internal Revenue Service will end monthly tax deposit requirements for about 1 million small businesses. Beginning Jan. 1, 2001, many small businesses will be allowed to make employment tax payments on a quarterly basis, not monthly.

“We have lowered a major hurdle for small businesses by eliminating a complex filing requirement,” IRS Commissioner Charles O. Rossotti said Monday. “The new standard will reduce the paperwork and red tape that small businesses face.”

Under the new rules, the IRS will allow businesses to make payments every three months if they have less than \$2,500 in quarterly employment taxes. It replaces the current standard, which allows quarterly payments only if businesses have less than \$1,000 in quarterly employment taxes. Many small businesses above these threshold levels must make payments on a monthly basis.

The difference between the \$1,000 and \$2,500 thresholds affects payment requirements for about 1 million businesses. In all, these businesses deposit \$6.6 billion, about 13 percent of the \$52.7 billion in total employment tax deposits.

The change creates a number of advantages for small businesses:

- IRS notices to small businesses are expected to decrease about 70 percent because there will be fewer deposits.
- Because this change will reduce the frequency of deposits, small businesses will encounter fewer mistakes and fewer penalties.
- Payments on a quarterly basis – rather than on a monthly standard – will help small businesses on cash flow issues.

“This creates a ripple effect for small business owners,” Rossotti said. “There are fewer payments. There is less paperwork. There are fewer chances for mistakes. And it frees up valuable resources for small businesses and the IRS.”

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“We are responding to the concerns from small business owners and their representatives about the burden of the monthly deposit rules,” said Joseph Kehoe, Commissioner of the Small Business / Self-Employed Division. “Like the small business community, we want to have an easier, more efficient system for administering Federal Tax Deposits. This is a step in the right direction.”

Previously, the threshold had been \$500 and was raised to \$1,000 on June 17, 1998. And after further study by the IRS, the agency produced regulations to further increase the threshold to \$2,500. Under the federal tax law, the Treasury Department is authorized to determine how employment taxes are collected. The new rules will be outlined in regulations that will be issued within a few days.

Small businesses with employment taxes that are less than \$2,500 per quarter may pay the employment taxes when they file Form 941, “Employers Quarterly Federal Tax Return.” With the upcoming publication of these regulations, only employers with employment taxes of \$2,500 or more per quarter must deposit the tax with an authorized financial institution.

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