

Employment Tax Consulting

The Employment Development Department (EDD) offers a service known as “employment tax consulting.” Individual consultations are offered to employers who are determined to be most at risk of incurring an unplanned tax liability. Generally, consultations are offered to employers during their first year of business. The consultation is tailored to the needs of each individual business and typically covers such topics as: California payroll tax reporting requirements; proper classification of workers, including the differences between employees and independent contractors; how to reduce Unemployment Insurance costs; and answers to other questions regarding employment tax obligations. These consultations are part of EDD’s continued commitment to provide timely advice and assistance to help employers avoid costly reporting errors. This service offers an approach that is significantly different from the traditional audit program. An audit program typically identifies employers with several years of reporting errors and can result in substantial assessments for back taxes. The consultations are offered to assist new businesses in avoiding such unplanned tax liabilities by making them aware of their reporting requirements before reporting errors occur.

Employment tax consulting was developed based on input from the Small Business Employer Advisory Committee (SBEAC). The Committee consists of business professionals representing a cross section of California employers. The EDD and SBEAC recognized the need for a proactive education and outreach effort to inform new businesses of their California employment tax reporting requirements.

The consultation will not result in an assessment and will not be submitted as an audit lead unless fraud is detected.

GOALS OF THE CONSULTATION

- Provide new employers with a private consultation regarding their individual business’ reporting requirements.
- Minimize the impact of unplanned tax liabilities on new employers.

- Foster open communication between EDD and the employer community.
- Encourage voluntary compliance among new employers.
- Make it easier for employers to do business in California.

BENEFITS TO THE EMPLOYER

- Receive a risk-free individual consultation on the payroll tax reporting requirements of the State of California, including instruction on completing and filing payroll reports, if needed.
- Learn to properly classify workers as independent contractors or employees. New employers often make the costly mistake of misclassifying workers, which can ultimately lead to a tax audit and assessment.
- Understand what types of compensation constitute “wages” for purposes of unemployment, disability, employment training tax, and personal income tax withholding.

CONSULTATION PROCESS

A personalized consultation may be offered to a new employer as part of EDD’s employer registration process. If you receive a consultation, you will receive a consultation letter, outlining the Consultant’s findings and recommendations.

You are free to accept or reject the Consultant’s advice and recommendations. Information developed during your confidential consultation will not be used as an audit lead. **If you choose not to comply with the Consultant’s recommendations, an assessment will not be issued and an audit lead will not be created because of the consultation.** However, you will continue to be subject to an EDD audit, and you could be selected, just as any other employer, for an audit based on EDD’s audit selection criteria. The fact that a consultation was

completed will not increase your chance of being selected for an audit in the future. In fact, the consultation may help you avoid mistakes that can normally trigger an audit.

If you are audited subsequent to a consultation, it is important to note that EDD's standard audit procedures will still apply. Any audit differences found will be treated in the same manner as if there had been no consultation. The fact that you did not accept our Consultant's advice will not cause additional penalties to be added. Therefore, participating in a consultation carries no risk to you. However, you could receive substantial benefits which help you comply with the law and avoid audits and assessments for back taxes in the future.

For additional information regarding this service, please contact our Taxpayer Assistance Center at 1-888-745-3886.

Equal Opportunity Employer/Program. Auxiliary services and assistance available to persons with disabilities.