Assessment & payment of the Trust Fund Recovery Penalty (TFRP)

The easiest way to explain trust fund is that if you were to hire me for $500 per week. At the end of the week, you will give me a check for $450. That’s because you kept out money for my taxes. $20 for SSA, $10 for Medicare and $20 for my federal withholding. Now, as my employer you would also contribute to my SSA & Medicare ($20 & $10 respectively). Your total tax bill is $80. Only the company can be held liable for the company’s contribution. However, the $50 that was withheld from my check was MY money. The company was simply withholding it to give to the government. If they did not turn it over to the government, they in essence ‘stole’ my money. They kept my money to help their company. That money is referred to as “trust funds”.

The IRS will do an investigation to see who was responsible for making sure those trust funds were paid. They will then assess a penalty in the amount of those trust funds against everyone they determine was responsible.

Now, that doesn’t mean they collect the money from all the individuals & from the company. But it does mean they can collect it from any one or combination of them. Here is something to explain that part.

**Total tax owed: $100,000.00**

**Trust fund portion: $62,500.00**

**Non-trust fund portion: $37,500.00**

*Let's say the trust fund investigation found 3 people responsible, the president, CFO & controller.*

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| --- | --- | --- | --- | --- | --- |
|  |  | **Company Liability** | **President Liability** | **CFO Liability** | **Controller Liability** |
| **Assessed liability** | **$100,000.00** | **$62,500.00** | **$62,500.00** | **$62,500.00** | **$62,500.00** |
| Company makes payment  | $10,000.00 | $90,000.00 | $62,500.00 | $62,500.00 | $62,500.00 |
| Company makes payment  | $20,000.00 | $70,000.00 | $62,500.00 | $62,500.00 | $62,500.00 |
| President makes payment  | $5,000.00 | $65,000.00 | $57,500.00 | $57,500.00 | $57,500.00 |
| CFO makes payment of | $12,000.00 | $53,000.00 | $45,500.00 | $45,500.00 | $45,500.00 |
| Company makes payment  | $7,500.00 | $45,500.00 | $45,500.00 | $45,500.00 | $45,500.00 |

*Up until this point all the company payments are applied first to the amount that only the company owes.*

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| --- | --- | --- | --- | --- | --- |
| Company makes payment | $10,000.00 | $35,500.00 | $35,500.00 | $35,500.00 | $35,500.00 |
| Company makes payment | $6,000.00 | $29,500.00 | $29,500.00 | $29,500.00 | $29,500.00 |
| Controller makes payment | $12,000.00 | $17,500.00 | $17,500.00 | $17,500.00 | $17,500.00 |
| President makes payment | $12,000.00 | $5,500.00 | $5,500.00 | $5,500.00 | $5,500.00 |
| CFO makes payment | $3,000.00 | $2,500.00 | $2,500.00 | $2,500.00 | $2,500.00 |
| Company makes payment  | $2,500.00 | $0.00 | $0.00 | $0.00 | $0.00 |

**Total payments: $100,000.00**

**Balance: $0.00**