What are “Trust Fund” taxes

The easiest way to explain trust fund is an example of you hiring someone for $500 per week.  At the end of the week, you will give them a check for $450.  That’s because you kept out money for their taxes.  $20 for SSA, $10 for Medicare and $20 for my federal withholding.

Now, as the employer you would also contribute to their 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 the employee’s check was ***their*** money.  The company was simply holding it to give to the government.  If they did not turn it over to the government, they in essence ‘stole’ the employee’s money.  They kept the employees’ money to help the 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 then assess a penalty in the amount of those trust funds against everyone determined to be 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.

For an example of how the payments would be applied from different people, see “Assessment & Payment of TFRP”.