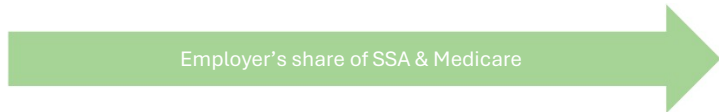


# Trust Fund Recovery Penalty

What is it and how does it work?

# What is it?

- The Trust Fund Recovery Penalty (TFRP) is a penalty assessed against responsible parties.
- The Trust Fund amount is the total of taxes that were held in trust by a company on behalf of the federal government.
- Most often this is money withheld from an employee's paycheck for their SSA, Medicare, and W-4 withholding.
- It does not include the employer's portion of SSA & Medicare.



Government

1 Qtr. and  
x 10 employees

Employee's Pay		\$5,000.00		\$ 150,000.00
Less:	W-4 WH	10% \$ 500.00	<i>Trust Fund</i>	\$ 15,000.00
Less:	SSA	6.20% \$ 310.00	<i>Trust Fund</i>	\$ 9,300.00
Less:	Medicare	1.45% <u>\$ 72.50</u>	<i>Trust Fund</i>	<u>\$ 2,175.00</u>
		<b>\$ 882.50</b>	<i>Trust Fund</i>	<b>\$ 26,475.00</b>
Employee take home:		\$4,117.50		\$ 123,525.00

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Employers Share:

	SSA	6.20% \$ 310.00	<i>Not Trust Fund</i>	\$ 9,300.00
	Medicare	1.45% <u>\$ 72.50</u>	<i>Not Trust Fund</i>	\$ 2,175.00
		<b>\$ 382.50</b>		<b>\$ 11,475.00</b>

Total Tax Bill \$ 37,950.00  
Trust fund portion \$ 26,475.00

IRS conducts a Trust Fund Investigation. The President & Vice President are determined to be responsible.

- The IRS doesn't care who makes the payment.
- Each party is set up on a payment plan that considers their individual ability to pay. If financial analysis of one party shows an ability to pay \$500 per month, that's what the IRS will set them up on.
- If another party's analysis shows they can't pay anything, they will be put in "not collectable status".
- And of course, the company will pay as analysis shows they can.
- Each party stands on their own.

	Company owes:	President	Vice President
	\$37,950.00	\$26,475.00	\$26,475.00
<b>Company makes a payment of \$2000</b>	<u>-\$2,000.00</u>		
<i>All payments made by company are designated first to the "company only balance" and then the TF portion.</i>			
Balance due:	\$35,950.00	\$26,475.00	\$26,475.00
<b>President makes a payment of \$2,000</b>	<u>-\$2,000.00</u>	-\$2,000.00	-\$2,000.00
<i>Payments to trust fund are applied to all parties.</i>			
Balance due:	\$33,950.00	\$24,475.00	\$24,475.00
<b>Company makes payment of \$15,000</b>	<u>-\$15,000.00</u>	-\$5,525.00	-\$5,525.00
<i>Once the remaining company only portion(\$9,475) is paid, the rest (\$5,525) is applied to TF.</i>			
Balance due:	\$18,950.00	\$18,950.00	\$18,950.00
<b>Vice President makes payment of \$2,000</b>	<u>-\$2,000.00</u>	-\$2,000.00	-\$2,000.00
Balance due:	\$16,950.00	\$16,950.00	\$16,950.00
<b>Company makes payment of \$10,000</b>	<u>-\$10,000.00</u>	-\$10,000.00	-\$10,000.00
Balance due:	\$6,950.00	\$6,950.00	\$6,950.00
<b>President makes payment of \$1,000</b>	<u>-\$1,000.00</u>	-\$1,000.00	-\$1,000.00
Balance due:	\$5,950.00	\$5,950.00	\$5,950.00
<b>Company makes payment of \$5,000</b>	<u>-\$5,000.00</u>	-\$5,000.00	-\$5,000.00
Balance due:	\$950.00	\$950.00	\$950.00
<b>Vice President makes payment of \$950</b>	<u>-\$950.00</u>	-\$950.00	-\$950.00
Balance due:	\$0.00	\$0.00	\$0.00

# RECAP

- Trust Fund money is the money that the employer was supposed to hold & pay over to the government
- When this is not done, the employer has in effect kept their employee's money for their own use.
- Anyone who had the responsibility to collect and pay those taxes and who willfully did not do so, can be held liable for the Trust Fund taxes
- The trust fund assessment is Instead, penalty in the amount of the tax. Each person deemed to be responsible is then assessed that penalty.
- There is no concession given for “share of responsibility”, “who has paid \$X.xx, etc. Each person & the company owe the amount assessed completely
- The IRS does not collect the full penalty/tax from multiple people and the company. Instead, they collect the amount in full, from any/all of the responsible people. Each time a payment is made on the trust fund, no matter what party it came from, all responsible parties and the company balance drops the same amount.