



June 2011

Tax on Unreported Tips

The IRS has recently added Line 5e to Form 941 for tax on unreported tips. Tipped employees can submit Form 4137 to declare unreported tips with their personal tax returns. The Internal Revenue Service (IRS) can use this data to assess whether employers owe additional FICA tax.

If the IRS determines that additional liability is due based on these unreported tips or based on an examination of the employer's records by an auditor, the agency issues a **Section 3121(q) Notice and Demand** letter to affected employers, indicating how much tax is owed. This tax must be remitted based on the client's federal tax deposit frequency.

If you or a client receives this notice please forward it to your payroll specialist immediately. If necessary we can amend the 941 and make the payment on your behalf. Note: Non-tax filing clients are responsible for remitting the amount indicated on the 3121(q) notice. Also, the IRS does not issue these notices retroactively. When the IRS determines what taxes are owed on tips (regardless of when the tips were earned), it becomes a liability as of the date on the notice.

If you have any questions, please contact your customer service representative at 516-931-8400. Thank you for choosing Advantage Payroll Services.

Sincerely,

The Specialists at Advantage