March 13, 2011

Delaware County repays Back Taxes

Delaware County was billed about $27,000 in back taxes after a review by the IRS revealed the county had not fully paid its 2007 taxes. The review, which took about a year to complete, showed that Delaware underpaid its 2007 federal taxes. In response, the county commissioners made out a check for $27,127 and paid the IRS from the county fund typically used to pay insurance deductibles.

According to the IRS review, the back taxes came about because in 2007, Delaware County under-reported its employee wages and taxable benefits under Medicare taxes by about $441,000 and under federal income taxes by about $62,000.

About $379,000 out of the $441,000 shortfall in taxes under Medicare came as a result of the error by the Delaware County Auditor's Office, which is responsible for payroll, incorrectly interpreting who is exempt from paying those taxes.

This happened when 6 employees retired only to be immediately re-hired to their same jobs. Since people who have worked for the same employer since before March 31, 1986 are not required to pay Medicare taxes, the amount in question was not reported. However, once these 6 employees retired, they no longer qualified for the exemption to pay Medicare taxes and this resulted in about $11,200 in unpaid taxes in 2007.

The county also did not adequately document vehicles and clothing used by county employees, which the IRS deemed to be taxable fringe benefits, rather than non-taxed supplies. Some of these supplies include uniforms and vehicles that are classified as taxable items because the IRS sees these as items that could be for personal use. As a result, there was an unreported $54,000 that should have been for Medicare taxes and another $54,000 that should have been for federal income taxes. That meant another $10,000 in underpaid taxes for 2007.

The IRS review also disclosed $36,000 worth of vehicle expenses for 5 employees were not reported for taxation. Since these employees kept no records of their mileage, it was not possible to discount personal use of the vehicles. Therefore, 100% of the value of the vehicles were deemed to be taxable.

In 2007, the year of the IRS review, former Delaware County Commissioner Todd Hanks was the auditor. He was succeeded by George Kaitsa who reported that the county was not penalized for anything more than the basic amount owed. This was because the county has implemented the fixes recommended by the IRS.