

The Dentist Story

In one case, I was auditing a dentist for their 2003 return, and they deducted wages paid to three children that were between the ages of five and nine years old. Based upon the dentist's explanation, the children would clean the office, the examination rooms, equipment, and the instruments after school and weekends. The children would work one to two hours during the evening and about two to three hours on Saturday. The children were paid \$4,750 each for the entire year, which happened to equal the standard deduction for a single individual in 2003; hence, the children had no personal income or FICA tax liability on their wages and their parent was able to deduct their wages as a business expense.

The initial facts that I was provided to consider were as follows:

Three children between the ages of five and nine years of age.

They work approximately seven to thirteen hours a week (approximately 350–650 hours a year).

They were paid \$4,750 for the year, earning around \$13.50–\$7.30 an hour based on the hours provided above, while the federal minimum wage in 2003 was \$5.15 per hour.

Their duties were cleaning the office, examination rooms, equipment, and instruments.

Dentist Audit – Additional Facts and Determination:

When I addressed that the “minor” children were paid over the minimum wage rate, their attorney revised the facts and claimed that they worked full days on the weekends and on days when there was no school.

When I questioned the attorney of having minor children clean the examination rooms with bloody gauze, spit, bits of teeth and to sanitize dental equipment and instruments is highly questionable. Again the story changed that the children just cleaned the front and back offices, doing various yard work and cleaned the parking lot.

There was no documentation showing the days or hours worked. The wage expense on the business was just a year-end entry showing the expense while other employees were paid through a payroll company. The children's payment was a direct deposit in their traditional IRA.

Any guess what my determination was? I disallowed the expense because it was not considered ordinary or necessary expense since the minor children were paid above the minimum wage thus being considered an excessive expense. Furthermore, which strengthen my position was that there were no documentation to show the number of

hours worked or any substantiation of the expense. Guess what? Not only did I assert the negligence penalty for the wage expense on the corporation, I also asserted a 6% penalty on the Excess Contribution on the children's IRA accounts for the year under audit and subsequent year. The monies deposited in the IRA were considered excess contributions since to contribute to an IRA you must have earned income. Since it was determined that the children did not earn the income they cannot contribute to an IRA.