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IRS says Fedex owes \$319 mln in back taxes: filing

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LOS ANGELES (Reuters) - Fedex Corp <FDX.N> said on Friday that the U.S. Internal Revenue Service found that its FedEx Ground independent contractors should be reclassified as employees for tax purposes and that the company faced related taxes and penalties of more than \$319 million for 2002.

The IRS is auditing similar issues for 2004 through 2006, the package delivery company said in the filing with the U.S. Securities and Exchange Commission.

"Given the preliminary status of this matter, we cannot yet determine the amount or a reasonable range of potential loss. However, we do not believe that any loss is probable," Fedex said in the filing.

The International Brotherhood of Teamsters, which has asserted FedEx Ground workers are in fact employees and which is campaigning to unionize FedEx Ground drivers, welcomed the IRS decision.

"It's game over for FedEx's independent contractor scam," union President Jim Hoffa said in a statement.

The union said penalties against FedEx could eventually top \$1 billion, since the current penalty only covers the year 2002.

FedEx said that it has "strong defenses to the IRS's tentative assessment and will vigorously defend" its position that FedEx Ground's owner-operators are independent contractors.

The filing came a day after Memphis, Tenn.-based FedEx warned that it faces "increase regulatory and legal uncertainty" over the independent contractor model it uses at FedEx Ground, which could result in higher costs..

FedEx Ground uses 15,000 drivers who are paid as independent contractors. Under this system, FedEx Ground drivers can own multiple routes, employing other drivers to deliver packages. Investors like the model because it helps FedEx save money and compete against main rival United Parcel Service Inc <UPS.N> and its unionized work force.

But the FedEx Ground model has faced challenges.

Lawsuits filed in 36 U.S. states claim the control FedEx Ground exercises over its contractors makes them employees, with a right to benefits and a refund for buying their trucks.

FedEx shares rose 66 cents, or 0.7 percent, to close at \$94.29 on the New York Stock Exchange.

(Reporting by Julie Vorman in Washington, Nichola Groom in Los Angeles, Nick Zieminski in New York; Editing by Leslie Gevartz, Gary Hill)

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