

## Worker Classification Tax Relief Has Arrived

The Internal Revenue Service (IRS) has announced a new voluntary settlement program that allows employers to reclassify independent contractors as employees at significantly reduced tax costs.

This month, the IRS initiated the Voluntary Classification Settlement Program (VCSP), a program enabling eligible employers who are currently treating workers as independent contractors to obtain significant federal employment tax relief if they agree to prospectively treat misclassified workers as employees. Over the past several years, the IRS and other governmental agencies have increased their focus on whether organizations are properly classifying workers as independent contractors or employees. Organizations that misclassify workers as independent contractors may be subjecting themselves to IRS scrutiny and liability for unpaid Social Security and Medicare tax, income tax withholding, penalties and interest.

### BENEFITS OF VCSP

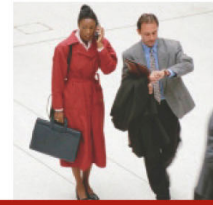
Employers obtain the following benefits under the VCSP:

- Employers pay the IRS just over 1 percent of the prior year's wages attributable to reclassified employees in full payment of payroll taxes due.
- No interest or penalties will be applied.
- The IRS will not audit payroll taxes for prior years related to the workers who are voluntarily reclassified as employees.

### ELIGIBILITY FOR VCSP

To be eligible, employers must satisfy all of the following:

- Employers must have consistently treated the workers as independent contractors in the past.
- For the past three years, employers must have filed all required IRS Forms 1099 for each of the workers.
- The employer must not be under current audit by the IRS, the Department of Labor or a state agency regarding classification of the workers.
- Employers must agree to an extended six-year statute of limitations for employment taxes for the first three years after entry into the VCSP.



- Upon acceptance into the VCSP, employers must enter into a Closing Agreement with the IRS agreeing to treat the workers as employees in future years.

To begin the process, employers must prepare and file IRS Form 8952, Application for Voluntary Classification Settlement Program (VCSP), at least 60 days before the proposed date that the worker reclassification is to take effect.

### **FOR MORE INFORMATION**

For more information, please contact:

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