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IRS LAUNCHES NEW VOLUNTARY WORKER RECLASSIFICATION PROGRAM

By Victor Sy, CPA

Businesses prefer to classify workers as independent contractors to save payroll taxes. As expected, IRS audits businesses to convert independent contractors to employees to collect employment taxes.

The IRS launched a new voluntary program that brings certainty to a controversial tax issue wherein IRS has been arbitrary and inconsistent in its application of control rules over workers. It brings relief to employers by resolving past problems with 1099 independent contractors who should be classified as W2 employees. This is an opportunity for employers to make a minimal payment for past payroll tax obligations instead of waiting for an IRS audit. It provides a fresh start for businesses to properly classify their workers as W2 employees instead of 1099 contractors.

Here's a 12-point summary of the new Voluntary Classification Settlement Program (**VCSP**):

1. You [agree to properly classify workers as employees in the future](#).
2. In return, the IRS agrees to [accept prior tax returns](#) classifying workers as independent contractors - as filed. This means that you will [not be subject to an employment tax audit](#) for prior years. Nice.
3. You will [not be liable for any interest and penalties](#). Nice.
4. You pay [only 10%](#) of employment tax liability for the most recent tax year. Nice.
5. That low 10% rate is applied to [reduced rates](#) for Social Security. Nice.
6. You must pay the full 10% with the closing agreement.
7. Use [Form 8952](#) (Application for Voluntary Classification Settlement Program).
8. File application at least [60 days before](#) treating workers as employees.
9. IRS reviews your application and informs you if it's [accepted](#). If it's not, you may [re-apply at a later date](#).
10. To qualify, you must have [consistently](#) treated workers in the past as 1099 independent contractors.
11. You must have [filed all required form 1099s for the previous three years](#).
12. You must [not be currently under audit](#) by the IRS, Department of Labor, Employment Development Department or any other state agency concerning the classification of these workers.

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[FAQs FOR NEW VOLUNTARY RECLASSIFICATION PROGRAM.](#)