



Voluntary Classification Settlement Program

Does your organization have workers who are treated as independent contractors when they possibly should be treated as employees? If so, the IRS recently started a voluntary compliance program in which organizations can come clean with how these workers are treated. The Voluntary Classification Settlement Program (VCSP) provides an opportunity for taxpayers to reclassify their workers as employees for employment tax purposes for future tax periods. The main benefit from this program is that organizations can receive partial relief from federal employment taxes.

An organization participating in the VCSP will agree to treat a class of workers as employees for future periods. The "cost" of participating in the VCSP is that the organization will pay 10% of the employment tax liability that may have been due on compensation paid to the workers for the most recent tax year. However, the organization will not be liable for any interest and penalties on the 10% employment tax liability and the organization will not be subject to an employment tax audit with respect to the worker classification for prior years.

In order to participate in the program, organizations must meet certain eligibility requirements, file Form 8952 ("Application for Voluntary Classification Settlement Program"), and enter into a closing agreement with the IRS. The eligibility requirements for this program are as follows:

- The organization is currently treating its workers as independent contractors or other nonemployees and want to prospectively treat the workers as employees;
- The organization must have consistently treated the workers as nonemployees and must have filed all required Forms 1099 for the workers for the previously three years.
- The organization cannot be currently under audit by the IRS, the Department of Labor, or by a state government agency.

If you have any questions about the program, how a class of workers should be treated (employees versus independent contractors), or assistance in participating in this program, please contact a GBQ representative.