

IRS Announces Voluntary Worker Classification Settlement Program

The IRS has announced a new program to permit employers to resolve past worker classification issues and achieve certainty under federal employment tax law at a low cost by voluntarily reclassifying their workers (Ann. 2011-64, 2011-41 IRB 503, IR-2011-95, 9/21/11). The Voluntary Classification Settlement Program (VCSP) is optional and allows employers to reclassify their workers as employees for future tax periods with limited federal employment tax liability for past nonemployee treatment.

To participate in the program, an employer must meet certain eligibility requirements, apply to participate in the VCSP, and enter into a closing agreement with the IRS. Eligible employers can apply for the VCSP by filing Form 8952. Employers accepted into the program will pay an amount effectively equaling just over 1% of the wages paid to the reclassified employees for the past year, and they will not be audited on payroll taxes related to those workers for prior years.

On November 17th, 2011, the Vermont Department of Taxes announced it will not piggyback the IRS settlement program. It is possible that they may change their mind in the future.

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