

## **The Voluntary Classification Settlement Program “At a Glance”**

### **What is the *Voluntary Classification Settlement Program* ?**

The VCSP enables taxpayers to resolve past worker classification issues and achieve certainty under federal employment tax law at a low cost by voluntarily reclassifying workers for future tax periods.

### **Who can participate in the VCSP?**

The VCSP is available to taxpayers who want to voluntarily change the prospective classification of their workers. The program is described in [Announcement 2011-64](#) and provides an opportunity for taxpayers who are currently treating their workers (or a class or group of workers) as independent contractors or other nonemployees to reclassify their workers as employees for employment tax purposes for future tax periods with partial relief from federal employment taxes.

All businesses may participate in the VCSP, including Exempt organizations and Government entities as long as they meet the eligibility requirements.

### **What are the eligibility requirements?**

A taxpayer must have consistently treated the workers as nonemployees, and must have filed all required Forms 1099 for the workers for the previous three years. The taxpayer cannot currently be under audit by the IRS or under audit concerning the classification of the workers by the Department of Labor or by a state government agency. A taxpayer who was previously audited by the IRS or the Department of Labor concerning the classification of the workers will only be eligible if the taxpayer has complied with the results of that audit.

### **How does a business apply for the VCSP?**

Taxpayers apply for the VCSP by filing Form 8952, *Application for Voluntary Classification Settlement Program*, at least 60 days before the taxpayer wants to begin treating the workers as employees.

### **What happens after the taxpayer sends in the application?**

The IRS will review the application and verify eligibility. Eligible taxpayers will enter into a closing agreement prepared by the IRS to finalize the terms of the VCSP. Along with signing the closing agreement, taxpayers will simultaneously make full and complete payment of any amount due under the VCSP closing agreement. If the IRS rejects a VCSP application because the taxpayer is not eligible, the taxpayer may reapply at a future date.

### **What do the IRS and the taxpayer agree to under the VCSP closing agreement?**

A taxpayer who participates in the VCSP and enters into a closing agreement with the IRS agrees to prospectively treat the class of workers as employees for future tax periods. In exchange, the taxpayer:

- a) Will pay 10 percent of the employment tax liability that may have been due on compensation paid to the workers for the most recent tax year, determined under the reduced rates of section 3509(a) of the Internal Revenue Code. This equates to a little over 1% of the amount paid to these workers.
- b) Will not be liable for any interest and penalties on the liability, and
- c) Will not be subject to an employment tax audit with respect to the worker classification of the workers being reclassified under the VCSP for prior years.

A taxpayer participating in the VCSP will agree to extend the period of limitations on assessment of employment taxes for the first, second and third calendar years beginning after the date on which the taxpayer has agreed under the VCSP closing agreement to begin treating the workers as employees.

### **Where can I get more information about this attractive program?**

There is more information about the VCSP in [Form 8952 and its instructions](#), the [VCSP pages of IRS.gov](#), including [VCSP Frequently Asked Questions](#), and in [Announcement 2011-64](#).