

The Kiplinger Tax Letter

Vol. 82, No. 24, November 30, 2007

High on the Democrats' tax to-do list:

Reforming worker classification rules to make it easier for IRS to go after firms that treat workers as independent contractors who really are employees for tax purposes.

They see a chance to reduce the tax gap because employees report a much larger portion of their earned income than do contractors. And businesses that misclassify their workers as contractors avoid payroll taxes they'd owe.

Even Clinton and Obama agree on this. Sens. Hillary Clinton (D-NY) and Barack Obama (D-IL) may attack each other on the campaign trail, but they've teamed up on a new reform proposal.

The consensus on this issue makes passage a safe bet before long, especially if Democrats control both Congress and the White House in 2009.

Redoing worker classification rules is a mixed bag for business. Although they want the rules clarified to make it easier to determine how to classify workers, they oppose losing provisions in current law that protects them from a lot of IRS second-guessing in this area.

Here's what the Democrats' reform proposal would do:

Water down a safe harbor that keeps IRS from reclassifying workers as employees. Currently, firms can keep treating workers as contractors if they gave them 1099s and treated them similarly situated workers that way. Firms also need a sound reason for doing so, such as relying on a ruling by a court or IRS, an industry practice or a previous payroll tax audit. The proposal would permit IRS to require reclassification of contractors as employees prospectively, and also prohibit employers from relying on industry practice as a reason for treating a worker as a contractor.

Make it simpler for workers to challenge firms by requiring IRS to establish expedited procedures for them to petition for a ruling.

Require firms to tell contractors about their tax obligations.

And end the current ban on IRS issuing rules on classification.

Until Congress acts, the IRS will keep the heat on employers. The service recently made it easier for misclassified workers to tattle on companies when it created new Form 8919. Taxpayers who believe that they were incorrectly treated as contractors will file the form with their 2007 returns, giving IRS information about their employers. By declaring themselves employees, they can avoid self-employment tax, but must send IRS the employee share of Social Security and Medicare tax.

Agents will soon get plenty of new leads for payroll tax exams from the new form. IRS says there are no plans yet to mine the forms for audit targets, but it's a safe bet a slew of new exams will result.

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