



## Treasury Inspector General for Tax Administration Office of Audit

### BETTER WORKER IDENTIFICATION DATA ARE NEEDED FOR THE VOLUNTARY CLASSIFICATION SETTLEMENT PROGRAM

Issued on August 27, 2014

## Highlights

Highlights of Report Number: 2014-40-065 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed and the Tax Exempt and Government Entities Divisions.

### IMPACT ON TAXPAYERS

The IRS estimates that employers misclassify millions of workers as independent contractors instead of employees. In September 2011, the IRS implemented the Voluntary Classification Settlement Program (VCSP) to allow employers to voluntarily reclassify workers as employees for Federal employment tax purposes. Employers that are accepted into the VCSP enter into a signed agreement with the IRS to treat workers as employees for future tax periods.

### WHY TIGTA DID THE AUDIT

This audit was initiated because the classification of whether a worker is an employee or an independent contractor has significant tax implications for the worker, the employer, and the IRS. The overall objective of this review was to assess the IRS's VCSP.

### WHAT TIGTA FOUND

The IRS does not obtain the information that it needs to verify the accuracy of applications and payments. The IRS does not require employers to provide information on the VCSP application that identifies the specific workers who are being reclassified, such as the workers' names and Social Security Numbers. Without the specific worker identification information, the IRS cannot determine if the applicant met VCSP eligibility requirements. In addition, the IRS is unable to verify the accuracy of the compensation amount reported on the application and ultimately the applicant's computation of the VCSP payment amount owed. Without identifying information for the workers being reclassified, the IRS is also unable to establish an effective process to monitor VCSP agreements to ensure employer compliance. Finally, processes to track and monitor program applications are ineffective and are not always accurate, and the follow-up review control logs do not always reflect accepted agreements.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS require employers applying for the VCSP to provide the names and Social Security Numbers for the workers being reclassified, revise internal procedures for processing VCSP applications to evaluate employer eligibility, and ensure that worker compensation and the VCSP payment is accurate; develop follow-up review processes to ensure compliance with the terms of agreements; develop reporting capabilities to allow for a single system for both tracking inventory and monitoring program performance; and revise processes to ensure that accepted agreements are successfully sent to and received by the IRS business units responsible for monitoring compliance.

IRS management agreed with the recommendations. The IRS plans to revise the VCSP application to instruct employers to provide worker identification information and to revise internal procedures to use this information to evaluate eligibility for the program and compliance with VCSP agreements. The IRS also plans to implement reporting capabilities for the Reporting Compliance Case Management System to allow for a single inventory system for inventory tracking and monitoring program performance. Finally, the IRS indicated that it has developed and implemented internal procedures to ensure that inventory is accurately input and agreements are transferred to the appropriate business units for compliance monitoring.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2014reports/201440065fr.pdf>

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