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States Start Conforming To IRS Independent Contractor Amnesty

If you are thinking of taking the new IRS amnesty deal to convert your independent contractors to employees, I'll bet you're wondering: [Will IRS Independent Contractor Amnesty Cover States Too?](#) It's too soon to say in many cases, but some states are picking up the IRS deal.

For example, the Minnesota Department of Revenue [announced](#) a parallel plan to allow companies there to correct misclassifications with reduced Minnesota tax consequences. Minnesota designed its plan to follow the federal Voluntary Classification Settlement Program ([VCSP](#)) which you can read about [here](#).

But while the federal deal has no announced expiration date, the Minnesota program is available only through December 16, 2011. That doesn't give you much time to weigh alternatives. To qualify, a business must meet all eligibility requirements for the federal VCSP **plus**:

1. Be an active business with Minnesota employees;
2. Agree to register for Minnesota withholding tax (if not registered);



3. Furnish information identifying the misclassified workers and the compensation paid to each;
4. Pay a tax at the rate of 3% of compensation paid to the affected workers for the calendar year 2010;
5. Agree to treat all workers in the affected classes as employees beginning January 1, 2012, and for all periods thereafter, unless the relationship between the worker and the employer changes; and
6. Make records available for audit to verify the tax liability and the accuracy of any statements upon request from the Department of Revenue.

Minnesota is just using the IRS form. To apply, you complete and submit IRS [Form 8952](#) with “Minnesota Worker Classification Voluntary Compliance Initiative” written across the top. Taxpayers should also submit a cover letter indicating a desire to apply for the Minnesota Voluntary Compliance Initiative. The full text of Minnesota’s announcement is available [here](#).

In considering whether to take the IRS deal, don’t forget to consider whether you could (instead) claim [Section 530 relief](#). That IRS get-out-of-jail-free card can allow some businesses to avoid liability for their past misclassification and to continue it! See [IRS Narrows Independent Contractor Relief](#).

Also consider whether your workers have objections to being reclassified. Some workers might like the reclassification, especially if it brings benefits. But some might consider whether they have a claim against you (for benefits, etc.) for the past. See [Ten Consequences of Reclassifying Independent Contractors as Employees](#).

Most employers will reclassify their workers for **all** purposes not merely with the IRS. They will begin paying unemployment insurance, workers’ compensation premiums and more. So while state tax programs like Minnesota’s will help make the decision and the transition easier, there’s still more to consider.

For more, see:

[U.S. and local governments crack down on employers who pay workers as contractors](#)

[Price of Reclassifying Workers](#)

[IRS: Independent Contractor \(Self-Employed\) or Employee?](#)

[Ten More Consequences of Reclassifying Independent Contractors as Employees](#)

[Employers Who Violate Tax Law May Go To Jail](#)

[IRS, DOL And States Mount Independent Contractor Attack](#)

[IRS Nightmare: What Employment Taxes?](#)

[Independent Contractor or Employee? The 100-Year War](#)

[Some Control Won't Convert Independent Contractors To Employees](#)

[No Get-Out-Of-Jail-Free Card For Payroll Tax Liability](#)

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