

# Businesses Face Pressure to Label Employees Correctly Following IRS Reclassification Program

By Frank L. Brunetti on May 30th, 2012

Employers are under greater scrutiny from state and federal tax agencies to classify their employees correctly to avoid fines, penalties and, in some cases, stop-work orders.

After the Internal Revenue Service rolled out its Voluntary Classification Settlement Program (VCSP), businesses had the opportunity to come forward and avoid hefty penalties if they had misclassified workers as independent contractors. The program allows employers to change a worker's status from independent contractor to employee for future tax periods without incurring penalties or interest for the past misclassification.

While some businesses may label employees as contractors to avoid paying workers' compensation, benefits and taxes under federal tax law guidelines, many businesses may misclassify employees due to the blurring definitions of workers versus contractors, The News-Press reports.

However, businesses are now receiving more attention from state agencies and the IRS regarding their employee labeling now that the program is in place. For example, several small companies in Southwest Florida have been shut down during audits and received large fines for failing to classify employees correctly and provide worker's compensation, the news source reports. In many of these instances, it is state, rather than federal, tax agencies conducting these audits.

Shelly Osterhout, for example, was forced to close down her computer business for ten days to allow the Florida Division of Workers' Compensation to conduct an audit after it received an anonymous that she was mislabeling employees. Although her business was cleared and she was allowed to re-open, she lost between \$10,000 to \$15,000 in revenue and took a hit to her reputation, she told the news source.

For these reasons, businesses around the country may benefit from making sure their employee classifications fall in line with federal and state tax law to avoid the financial ramifications of an audit.