

# Statements from Government Authorities

## Concerning Independent Contractor Compliance and Misclassification

"Research indicates that in 1998, **64 percent of the income tax gap and 40 percent of the employment tax gap was attributable to self-employed individuals**. Later analyses indicate that these percentages have been growing. Because noncompliance in the self-employed population remains a significant component of the tax gap, [the Treasury Inspector General for Tax Administration] maintains that implementing a provision in this area could reduce the tax gap by billions of dollars...

"[T]here is significant taxpayer noncompliance with estimated tax requirements. For each tax year from 1995 through 2000, **between 5.7 million and 6.8 million individual taxpayers were assessed penalties for making insufficient or late estimated tax payments**. Many of these taxpayers also filed tax returns reporting unpaid taxes that resulted in the IRS having to take costly collection actions."

Pamela J. Gardiner, Acting Inspector General, Treasury Inspector General for Tax Administration  
Hearing Before the U.S. Senate Committee on Finance, July 21, 2004

"The common law rules for classifying workers are unclear and subject to conflicting interpretations. Employers cannot be certain that their classification decisions will withstand challenges by IRS. If not upheld, they risk large retroactive tax assessments.

"Being responsible for enforcing these rules and concerned about misclassification, IRS has maintained an audit presence...."

**"IRS has found that independent contractors compared to employees have much lower income tax compliance and account for a much higher portion of the income tax gap."**

Natwar M. Gandhi, Associate Director, Tax Policy and Administration Issues, General Government Division, U.S. General Accounting Office\*  
Testimony Before the Subcommittee on Oversight, Committee on Ways and Means, June 20, 1996:  
"Tax Administration: Issues in Classifying Workers as Employees or Independent Contractors"

"Even the IRS cannot seem to agree on the interpretation of the rules. **A February 1990 IRS study found misclassified workers in the IRS** and recommended guidance and education as corrective actions."

General Government Division, U.S. General Accounting Office\*  
Report to Congressional Requesters  
"Tax Administration: Approaches for Improving Independent Contractor Compliance" July 1992

"We reported in 1999 that, as of September 1997, **more than 1.9 million self-employed taxpayers were delinquent in paying \$6.9 billion in self-employment taxes**. Also, more than 144,000 taxpayers with delinquent self-employment taxes of \$487 million were receiving about \$105 million annually in monthly Social Security benefits.

"While IRS's ability to collect self-employment taxes before taxpayers become delinquent is hampered because there is no withholding on self-employment income, most self-employed taxpayers are required to make estimated tax payments. However, as of September 1997, **about 90 percent of the delinquent self-employed taxpayers required to make estimated tax payments did not.**"

James R. White, General Accountability Office  
"Increase Collection of Self-employment Taxes," from  
"Opportunities for Oversight and Improved Use of Taxpayer Funds:  
Examples from Selected GAO Work" August 1, 2003.

"Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through its Employment Tax Examinations program. For fiscal year 2002, **90 percent of the examinations found misclassified workers and associated unpaid taxes.**"

James R. White, General Accountability Office  
"Improve Independent Contractor Tax Compliance," from  
"Opportunities for Oversight and Improved Use of Taxpayer Funds:  
Examples from Selected GAO Work" August 1, 2003.

"...[F]ederal and state officials have identified as a significant part of the tax gap the lack of compliance with Form 1099 filing requirements for independent contractors. **A significant amount of revenue is lost because income taxes are frequently not remitted on such subcontractor payments**—either because the Form 1099 is not filed or the information provided on the form is not accurate."

California Legislative Analyst's Office (LAO):  
"California's Tax Gap," February 2005

\* Now called Government Accountability Office

Emphasis ours



MyBizOffice, Inc.  
13454 Sunrise Valley Drive, Fifth Floor  
Herndon, VA 20171 • [www.mybizoffice.com](http://www.mybizoffice.com)  
Tel: 703-793-6000 Toll-free: 1-877-391-8463 Fax: 703-793-6070

Copyright © 2006, MyBizOffice, Inc. All rights reserved.  
MyBizOffice and the MyBizOffice logo are registered trademarks of MyBizOffice, Inc.  
All other trademarks mentioned are property of their respective owners.

COR-0260-07-A

