



Department of the Treasury
Internal Revenue Service

Notice 989 (Rev. 3-1999)
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Commonly Asked Questions When IRS Determines Your Work Status is "Employee"

1. WHAT SHOULD I DO NOW?

What you should do depends on whether or not you have filed a tax return reporting the income you earned as an employee.

If you haven't filed yet, you must file Form 1040, Individual Income Tax Return, for the affected tax year(s), reporting your Form 1099-MISC income as wages. Since no social security or Medicare tax was withheld from these wages, you must pay the employee portion of these taxes with your return. See item 4 below on computing your social security and Medicare tax. Attach a copy of your determination letter to your return when you file it.

If you have already filed a return reporting your Form 1099-MISC wages as self-employment income, file Form 1040X, Amended U.S. Individual Income Tax Return, for the affected tax year(s). You may be due a refund or you may owe additional taxes. Generally, a Form 1040X must be filed within 3 years after the date you filed the original return or within 2 years after the date you paid the tax, whichever is later. A return filed early is considered filed on the due date.

When completing the amended return, you will need to figure the difference between the social security and Medicare tax you now owe and any self-employment tax you paid (see item 4 below). You must also remove any deductions you claimed as a self-employed taxpayer on Schedule C of your original return, and then claim any allowable employee business expenses as miscellaneous deductions on Schedule A (see item 5 below). Attach a copy of your determination letter to your amended return when you file it.

2. HOW DO I GET MONEY BACK IF I ALREADY FILED MY RETURN?

You must file Form 1040X to receive a refund or credit toward any unpaid taxes.

3. WILL I GET BACK ALL THE SELF-EMPLOYMENT TAX I PAID?

No. Your refund amount depends on the changes you report on your amended return. The employee share of social security and Medicare tax will be approximately $\frac{1}{2}$ of the self-employment tax you paid. Your employee business expenses that you originally claimed on Schedule C will now be shown on Schedule A of your amended return. Since this deduction is limited to 2% of your Adjusted Gross Income, this may increase your taxable income and your income tax. Also, as an employee, you will not be able to claim certain self-employment expenses. Any additional tax may reduce or eliminate your refund, or you may owe additional tax.

These changes may also affect your alternative minimum tax or any credits you were entitled to take, such as the earned income credit or the credit for child and dependent care expenses.

4. HOW DO I FIGURE THE SELF-EMPLOYMENT AND SOCIAL SECURITY AND MEDICARE TAXES?

Use the chart at the end of this Notice to figure the social security and Medicare tax you owe and any self-employment tax you paid. Contact us if you need rates for years prior to 1994.

- A. Multiply the income on your Form 1099-MISC (up to the wage limit) by the social security tax rate for the year.
- B. For years after 1990, also multiply your income (up to the wage limit) by the Medicare tax rate for the year and add that result to your social security tax.

(over)

- C. If you have already filed a return reporting your Form 1099-MISC income as self-employment income, multiply your Form 1099-MISC income by .9235. Compute the self-employment tax on this amount remembering the income limit, and being sure to include the Medicare portion. (If your Form 1099-MISC income was less than \$433 you did not owe self-employment tax.)
- D. If you are filing an original Form 1040 return, show the total computed social security and Medicare tax due on **Form 4137**, Social Security and Medicare Tax on Unreported Tip Income. Cross out the word "**TIP(S)**" and insert the word "**WAGE(S)**" on the Form 4137 and use wage(s) in place of tip(s) when completing the form. Then enter the social security and Medicare tax total on Form 1040, page 2 in the other taxes section as instructed on the Form 4137. Use the appropriate forms for the tax year you are filing.
- E. If you are filing an amended return, show the total computed social security and Medicare tax on Form 4137, Social Security and Medicare Tax on Unreported Tip Income. Cross out the word "**TIP(S)**" and insert the "**WAGE(S)**" on the Form 4137 and use wage(s) in place of tip(s) when completing the form. On Form 1040X, Line 9, Other Taxes, show the Self-Employment Tax you reported on your original return (column a), the total of the Social Security and Medicare now due (c), and the difference between these amounts (b). Use the appropriate forms for the tax year you are amending.

5. WHAT IF I REPORTED MY FORM 1099-MISC INCOME AND CLAIMED EXPENSES ON SCHEDULE C?

You must report Form 1099-MISC income as wages on Form 1040X. Eliminate any business expense deductions you claimed on Schedule C of your original return. Show any expense deductions that are allowed for an employee on Schedule A of your amended return. Show these expenses on **Form 2106**, Employee Business Expenses, and as miscellaneous deductions on Schedule A. Attach the Form 2106 and Schedule A when you file your amended return.

Report expenses such as interest and taxes according to the Schedule A instructions. Use Form 1040X to remove expenses you claimed as a self-employed person that you can't claim as an employee, such as the self-employment deduction, medical insurance, or a Keogh-type retirement plan.

6. WHAT IF I'M GETTING BILLS FOR MY TAXES?

Determining your work status is an administrative action only. It doesn't stop the billing process. The Service will continue to send bills until you pay the amount due or file an amended return. When we process your amended return, we'll change your tax and any interest or penalty charges. File your Form 1040X and a copy of your determination letter with the service center specified in the Form 1040X instructions. Also, please inform the IRS office that has been sending you bills that you have filed the amended return.

7. HOW DO I GET RETURN FORMS?

You may call IRS toll-free at 1-800-TAX-FORM (1-800-829-3676) to request forms. You can also pick-up some forms at your local library or a commercial tax service.

Form are also available by computer: **IRIS at FedWorld:** (703) 321-8020; **Telnet:** iris.irs.ustreas.gov; **World Wide Web:** http://www.irs.ustreas.gov; and **FTP:** ftp.irs.ustreas.gov.

8. WHAT IF I HAVE MORE QUESTIONS?

Write or call the person whose name is shown on your determination letter. If you need help in preparing Form 1040X you can call 1-800-829-1040.

CHART FOR COMPUTING SOCIAL SECURITY TAX, SELF-EMPLOYMENT TAX, AND MEDICARE TAX

TAX YEAR	SOCIAL SECURITY		SELF-EMPLOYMENT	
	WAGE LIMIT	TAX RATE	INCOME LIMIT	TAX RATE
1994	\$60,600	6.20%	\$60,600	12.4%
1995	\$61,200	6.20%	\$61,200	12.4%
1996	\$62,700	6.20%	\$62,700	12.4%
1997	\$65,400	6.20%	\$65,400	12.4%
1998	\$68,400	6.20%	\$68,400	12.4%

For each year shown above, also include Medicare Tax (No wage or income limit)
 Social Security Medicare 1.45% Self-Employment Medicare 2.9%