

possessing firearms, and for other purposes; to the Committee on the Judiciary.

#### SUBMISSION OF CONCURRENT AND SENATE RESOLUTIONS

The following concurrent resolutions and Senate resolutions were read, and referred (or acted upon), as indicated:

By Mr. INOUE (for himself, Mr. D'AMATO, Mr. SIMPSON, Mr. SMITH, Mr. MACK, Mr. CONRAD, Mr. FORD, Mr. MCCONNELL, Mr. HELMS, Mr. HEFLIN, Mr. STEVENS, Mr. DOMENICI, Mr. WARNER, Mr. GRAHAM, and Mr. CRAIG):

S. Con. Res. 46. A concurrent resolution to express Congress' admiration of the late Israeli Prime Minister Yitzhak Rabin and his contribution to the special relationship between the United States and Israel, and to express the sense of the Congress that the American Promenade in Israel be named in his memory; to the Committee on Foreign Relations.

#### STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. BOND (for himself, Mr. NICKLES, Mr. DOLE, Mr. D'AMATO, Mr. MURKOWSKI, Mr. INHOFE, Mr. LOTT, Mr. GRAMM, and Mr. FRIST):

S. 1610. A bill to amend the Internal Revenue Code of 1986 to clarify the standards used for determining whether individuals are not employees; to the Committee on Finance.

##### THE INDEPENDENT CONTRACTOR TAX SIMPLIFICATION ACT OF 1996

Mr. BOND. Mr. President, determining worker classification is one of the most important tax issues facing small business today. Indeed, and in fact, it was rated No. 1 by the delegates to the White House Conference on Small Business. They said this is something that must be dealt with because the ambiguity in the current law makes it extremely difficult for business owners to determine whether a worker is an independent contractor or an employee. Today I will be introducing the Independent Contractor Tax Simplification Act on behalf of myself, Senator NICKLES, Senator DOLE, Senator D'AMATO, Senator MURKOWSKI and Senator LOTT.

For years, now, the Internal Revenue Service has used a 20-factor common law test to determine worker status. Frankly, the test is a nightmare of subjectivity and unpredictability for small business owners who often get their tutorial on the subtleties of the issue during an IRS audit—certainly an unfortunate time to be learning how tricky the law is.

IRS agents are required to consider 20 different factors to determine whether an employer/employee relationship exists. The problem is that the small business taxpayer is not able to predict which of the 20 factors is going to be more important to a particular IRS agent, and finding a certain number of these factors present in a case does not always determine the result.

Inevitably, what has been happening is that agents are resolving far too

many cases in favor of the IRS and its tendency to find the existence of an employment relationship at the expense and disruption of bona fide independent contractor arrangements.

Let me make perfectly clear, the IRS has every right to obtain information on payments, whether they are made to an employee or to an independent contractor. It is our position that simplifying IRS collection does not warrant the IRS going beyond tax law to determine business organization, so long as the organizations are legitimate structures and the IRS has the information on payments so they may collect appropriate taxes.

This lack of a clear standard in existing law has made some small business owners reluctant to hire independent contractors and put others in great concern and risk of being pursued for back taxes.

In some cases, the concern is so great that it stifles business expansion. As I indicated earlier, the depth of the problem was made clear last summer when the White Conference on Small Business, a nationwide group of almost 2,000 small business delegates, voted the independent contractor issue first on its list for recommended changes.

Today, together with Senator NICKLES and the other Senators whom I mentioned, Senator NICKLES having been a long and consistent supporter of small business legislation, we introduce a bill that solves this problem. Our bill provides a short list of simple, clear objective standards that will allow all taxpayers to understand what the law says about who is an employee and who is an independent contractor. When this law is enacted, IRS agents will have clear direction, small business will have clear direction, but the IRS will no longer have the upper hand in today's confusing independent contractor law, which gives the IRS agent, when they deal with our country's small business taxpayers, advantage in determining their business organization.

I especially thank Senator NICKLES for his willingness to allow us to work on this bill together. Last September at a hearing, I held in the Small Business Committee, Senator NICKLES testified about his personal experience with this issue dating back to the small business that he began while he was a college student. For Senator NICKLES' company, like many startup companies and small businesses, it seemed to make perfect sense to hire independent contractors in certain situations. More established, larger businesses also need to hire independent contractors to accomplish specific tasks that may require specialized skill. In fact, many of America's entrepreneurs are in business as independent contractors whose livelihood is dependent upon the fact that other companies need their service and expertise. These entrepreneurs have no desire, nor do they have any need, to become employees of the businesses who purchase their services.

Others in our Small Business Committee hearing testified about their experiences with IRS agents regarding worker status, telling us about receiving IRS penalties as high as a quarter of a million dollars. Between these outrageously high penalties and the complexity of the 20-factor test, this issue, understandably, infuriates many small business taxpayers.

Mr. President, the Commissioner of Internal Revenue, the Honorable Margaret Richardson, in a speech to last summer's small business conference delegates, told them the IRS does not care whether someone is an employee or independent contractor, as long as they properly report their income, and that is as it should be. Yet, the IRS continues to pursue this issue fiercely during its audits. It has been reported that in a recent 4-year span, the IRS reclassified 338,000 workers as employees. The same report indicates the IRS prevails in 9 out of 10 worker classification audits. Little wonder when they have the upper hand with a very confusing, very complex 20-factor test.

Just last week, I received a copy of the "Revised Internal Revenue Service Worker Classification Training Materials." This was distributed by Commissioner Richardson. In her memo accompanying the document, she describes the purchase of the document as an attempt to identify, simplify and clarify the factors that should be applied in order to accurately determine worker classification.

There could be no more compelling justification for the importance of our immediate passage of the legislation than this document. We commend Commissioner Richardson for seeking to simplify, but this document is over 100 pages long. If it takes that much paper and that much ink to instruct IRS agents on how to simplify and clarify a small business tax issue, I think we can be pretty sure how simple and clear it is going to seem to the taxpayer sitting across the desk from an IRS agent during an audit.

As those who follow this issue know, what makes this problem especially frustrating is that unlike most interpretive actions of the IRS where they must determine the proper amount of income or deductions so Treasury can collect the amount of tax legally due to it, the independent contractor issue is not about how much tax the Government receives. The classification decision does not alter aggregate tax liability to the Government at all. This problem exists because of IRS's apparent desire to recast economic relationships between private parties that these parties have already determined for themselves. The Independent Contractor Tax Simplification Act will help move the IRS out of its de facto role of setting employment policy and back into its role of revenue collection.

Our bill sets out three simple questions to be asked in determining whether a person providing services is an employee or independent contractor.