Frequently Asked Questions | STC Tax Classification

FOR U.S. NATIONALS WHO ARE STCs

1. Who will be affected by the change in tax classification determination?

The change only impacts U.S. citizens who are appointed as STCs.

2. Why is my tax classification important?

The Bank Group has an obligation to classify U.S. STCs as either employees, whose compensation is reported to the Internal Revenue Service (IRS) on Form W-2, or independent contractors, whose compensation is reported on Form 1099. Your tax classification will affect how you complete your tax returns and your eligibility for certain tax deductions. (See questions regarding tax consequences below.) An accurate tax classification may reduce the risk of additional assessments in the event you are audited by the IRS.

3. How can I check the tax classification for my STC assignment?

While creating your STC appointment, the TTL will need to answer questions about the nature of your assignment. The assignment will be classified based on the TTL’s responses to the questions.

If you have an upcoming STC appointment, your TTL will inform you of your tax classification as either an employee, whose income will be reported on Form W-2, or an independent contractor, whose income will be reported on Form 1099. Additionally, early in fiscal year 2018, the ST Payment system will be updated to indicate the tax classification for each STC appointment, so that you can verify your tax classification status when you submit a fee payment request. If you have questions about your tax classification or how your TTL responded to the questions, please contact your TTL.

4. What are the questions that the TTL will need to answer, and how will the responses determine the tax classification?

TTLs are prompted to answer up to three questions to determine your tax classification. The questions, as revised effective April 24, 2017, are as follows:

1. Will the STC serve as a translator, coach, counselor, or facilitator or is the STC being hired only to produce a discrete report, product or paper?

   If yes, fees will be reported on Form 1099

   If no, go to question #2.
2. Will the STC work under regular, detailed, or daily supervision of a TTL or other World Bank Group staff member (i.e., the STC will receive routine instructions, guidance, oversight and feedback to ensure work is completed in accordance with World Bank Group standards or methods)?

   If yes, fees will be reported on Form W-2.

   If no, go to question #3.

3. Will the STC be expected to work on World Bank Group premises more than 60% of the time worked?

   If yes, fees will be reported on Form W-2.

   If no, fees will be reported on Form 1099.

5. Why was the threshold for the percentage of time worked on Bank Group premises, in the third question, reduced from 80% to 60%?

   The tax classification criteria for STC appointments before July 1, 2017 allowed for the possibility that a U.S. citizen STC who worked on Bank premises as much as 80% of the time would be classified as an independent contractor with income reported to the IRS on Form 1099, rather than an employee with income reported on Form W-2. The 80% standard did not contemplate the flexibility generally afforded to staff for home-based work and made it more likely that some STCs would be improperly classified which could pose a tax audit risk to them. Setting this threshold at 60% was found to be more appropriate and should improve the accuracy of tax classification outcomes. Note that the third question is only applicable if the responses to questions 1 and 2 are both “no”.

6. I am receiving a new STC assignment in July 2017 that is a continuation of my STC assignment for the fiscal year ending in June 2017. As a result of the modified tax classification questions, I have learned that my tax classification will change as of July 1, 2017. How will my compensation for this assignment during 2017 be reported?

   If as a result of the revised questions, your tax classification for the continuing assignment changes as of July 1, 2017, you may email the Tax Office to request that all of your fees received in 2017 for such assignment be reported on the same IRS form that was used for the first half of the year. However, fees paid in calendar year 2018 and thereafter will be reported on the IRS form corresponding to your most recent tax classification.

7. Does classification as an employee and receipt of a Form W-2 make me eligible for any additional WBG benefits or affect my compensation?

   No, the terms and conditions of your STC appointment are not affected by either your classification for tax purposes or the manner in which the Bank Group reports your income to the IRS.
1. **What are the tax consequences if I am determined to be an independent contractor for tax purposes and receive a 1099-MISC?**

   Generally, independent contractors may deduct business expenses on schedule C, and self-employed medical insurance premiums and retirement plan contributions on Form 1040. (Please review the instructions to these forms at [www.irs.gov](http://www.irs.gov), and consult with your personal tax advisor regarding your eligibility for deductions.)

2. **If I am an employee for tax purposes and receive Form W-2, am I eligible for any employment-related deductions or other tax benefits?**

   If neither you nor your spouse was covered by a retirement plan at work during the tax year, you may deduct contributions of up to $5,500 (or $6,500, if you are age 50 or older) to an individual retirement account (IRA). If you or your spouse were covered by a retirement plan at work, your eligibility for a deductible IRA contribution will depend on your income. See IRS Publication 590 or consult with a personal tax advisor for details. Employees may deduct business expenses only to the extent that total miscellaneous deductions exceed 2% of adjusted gross income. See the IRS' Instructions to Schedule A or Publication 529. Bank Group employees are also eligible for an exemption from the self-employment tax for earnings for services performed outside the United States. (See next two questions.)

3. **Do I still need to file Schedule SE and pay self-employment tax if I receive Form W-2 from the WBG?**

   Yes, because of the Bank Group’s immunity from paying and collecting social security taxes, you will need to report Bank Group income on Schedule SE and pay self-employment tax regardless of whether you are classified as an independent contractor or an employee for tax purposes.

4. **I am an STC and occasionally travel outside of the U.S. for work. Is my income earned abroad subject to self-employment tax?**

   If you receive Form W-2 from the WBG, the portion of your STC income that is earned outside the U.S. is not subject to self-employment tax; only your compensation for work performed within the U.S. is subject to self-employment tax and reported on Schedule SE. If you receive Form 1099, all of your net income from Schedule C (after deductions for business expenses) must be reported on Schedule SE and is subject to self-employment tax regardless of where your services were performed. See instructions to IRS Schedule C and Schedule SE at IRS.gov.

**For Non-U.S. Nationals who are STCs**

1. **I am a short-term consultant (STC) and I hold a U.S. green card. Will I be affected by the change in the tax classification process?**

   No, if you are not a U.S. citizen, your Bank Group income is exempt from U.S. income taxes, and is not reported to the U.S. Internal Revenue Service (IRS).