

INDEPENDENT CONTRACTOR OR EMPLOYEE:

THE DISTINCTION MATTERS TO THE IRS

There is a considerable financial incentive for businesses to want to classify workers as independent contractors rather than as employees. For employees, a business is required to pay payroll taxes and other employee benefits such as paid time off and pension contributions. None of these is required with independent contractors.

Depending on the type of business you are in, some business functions lend themselves to being done by contractors while other functions simply are not. The facts and circumstances of each case will decide the proper treatment. It is important to get it right to avoid the prospect of an IRS audit tapping you for back payroll taxes, penalties, and interest.

So how does one go about getting it right? The determination is made by reviewing the evidence as to the degree of control of the business over the worker and the job function. Does the company have the right to control how and when the worker does his job? How is the worker paid – by the hour or by the job? Who provides the tools and supplies for the job? Is there a written contract between the parties spelling out rights and responsibilities of each? Is the job for your company ongoing or does the worker perform services for other customers? These and other factors will help make the proper classification for your workers.

If your facts and circumstances do not leave you with a clear indication as to whether or not you have an independent contractor, give us a call and we'll review your worker classifications with you.

Please visit our web site at www.mangoldcpa.com or contact us at inquiries@mangoldcpa.com or 512-327-0909 if you are interested in accounting services.