

Taxing Times

Read about taxpayers with IRS problems and learn helpful tips on how to end them.

EMPLOYEE OR INDEPENDENT CONTRACTOR?

Workers and business owners are wondering if they made the right decision when hiring or accepting a position –

EMPLOYEE OR INDEPENDENT CONTRACTOR?

Employees and independent contractors have significant differences that affect not only taxes, but many other aspects of employment. It is important for workers and employers to know their rights.




EMPLOYER CONSIDERATIONS

By hiring independent contractors instead of putting employees on payroll, business owners can reap the benefits of no income tax withholdings, no employment taxes, and no liability for acts of employees, no federal and state discrimination laws covering only employees and no obligation to offer benefits.

However, while this may all sound too good to be true to employers, there are some practical disadvantages of hiring 1099 workers. For example, there is a basic understanding that independent contractors can choose whether or not they want to come to work without the fear of losing employment. They have the ability to control their own hours, and can typically get things done on their own terms without having to adhere to strict company policies – as long as the work performed has been completed and lives up to the standards that the employer has set out.

For legal purposes, an “employment contract” is an agreement between the employer or business owner and the worker. As long as both parties are in agreement with the above terms of working status and conditions it can all be legally defined for the productivity and wealth of both parties!

 W2

 1099

SETBACKS OF BEING A 1099 WORKER

Many workers are often tempted by the 1099 employment option because they are told that they will get a bigger check. They are enticed by the higher pay without obtaining a full understanding of what their employment status will mean long-term. In the short run that's absolutely true, however eventually independent contractors will actually owe higher taxes than employees. This is because not only will income tax be taken out, but self-employment tax as well. 1099 workers are also expected to pay twice as much for social security and Medicare taxes.

Contractors will never enjoy some of the benefits that employees have the ability to take advantage of. These include sick days, vacation hours, health and dental insurance, worker's comp, retirement, pension and unemployment benefits – nor are they covered by an employer's liability insurance. 1099 workers are not eligible for overtime pay.

ADVANTAGES OF 1099

The good news for independent contractors is that most of them have the ability to set their own price, and companies tend to pay a higher rate to 1099 workers than they do for W2 employees because there are fewer costs associated with hiring self-employed workers. Also, many independent contractors have the ability to set their own schedules and sometimes even work from home. For some workers it's all about control, and the lure of not being told by the company what to do or how to do it is enough to make them opt for 1099 status.

While when it comes to taxes, independent contractors have little to look forward to, a few advantages of 1099 tax setup are that they can put more money away in tax deferred accounts like SEP IRA, and have the possibility of deducting certain business-related expenses on taxes.

For more information or individual advice, contact Katherine Gilbert, EA, for free consulting

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Employee W2

- Does not control how, when, or where he/she works
- Has no personal risk and is covered by Worker's Compensation
- Day-to-day work is important to the business
- Uses company resources

Independent Contractor 1099

- Controls every aspect of how, when and where the work will be done
- Assumes all risk and is not covered by anyone
- Not important for daily company workflow
- Use own resources to get job completed



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