

Title:

Paying Workers - What Can You Write-Off?

Word Count:

375

Summary:

As your business grows, you are going to need help. This help comes in the form of employees and independent contractors. What you can write-off is dependent upon how your helper is classified - as an employee or independent contractor.

Keywords:

paying workers, write offs, taxes

Article Body:

As your business grows, you are going to need help. This help comes in the form of employees and independent contractors. What you can write-off is dependent upon how your helper is classified - as an employee or independent contractor.

Independent Contractor

Whenever possible, you want to use independent contractors to assist you. Payments to independent contractors are completely deductible. You simply claim the deduction on your return. If you pay them more than \$600 during the tax year, you also must issue a 1099-MISC in January of the following year. Importantly, you do not have to pay employment taxes or make withholding on the compensation.

Unfortunately, the IRS doesn't allow you to randomly classify a worker as an independent contractor. The key to the determination is whether you "control" the actions of the worker. Generally, you must be able to show the IRS that the worker is an independent contractor because they have the ability to control the details and means by which the work is accomplished. To this end, it is helpful to show the worker sets their own ours, has a work place and risks not getting paid if the work is below standard.

Employee

If your worker is classified as an employee, the tax burden increases. Under federal law, you are responsible for paying employment taxes related to the worker, even if there is only one.

Initially, you must withhold FICA, Social Security and income taxes from employee paychecks. As an employer, you must also contribute FUTA payments on your own, to wit, they are not deducted from the employees pay.

FICA stands for the Federal Insurance Contribution Act. This Act created a system to collect and provide benefits for workers who retire, are injured or become disabled. FICA is better known as Medicare.

FUTA stands for the Federal Unemployment Tax Act. This Act created a system to provide unemployed workers with temporary benefits until they obtain a new job. The system works in tandem with state unemployment acts. Most consider it a disaster, but you still have to pay.

In Closing

As you can see, it is cheaper to use independent contractors versus employees. The tax burden is significantly less, but make sure the IRS doesn't reclassify them as employees.