

## MONEY MANAGEMENT

# QUALIFYING AS AN INDEPENDENT CONTRACTOR

Reno - - Trends in downsizing, outsourcing services, and telecommuting have resulted in more and more individuals setting up shop for themselves. However, from the standpoint of the Internal Revenue Service (IRS), all of these individuals are not equal. For tax purposes, some people may qualify as independent contractors and others may be viewed as employees.

If you've recently set up your own business or are thinking about doing so, the Nevada Society of CPAs recommends that you take the time to determine whether you qualify as an independent contractor or as an employee and to understand the tax rules that apply to your particular status.

### DETERMINING YOUR STATUS

The IRS has a list of 20 factors it uses to determine whether an individual qualifies as an independent contractor or as an employee. Here are some of the key areas: 1) Control. The more control a company has over your work schedule — such as determining how, when and where you work — the more likely you will be classified as an employee. Additionally, the more support and assistance you receive from a company, whether it is typing assistance, a new computer, or even computer training, the more the IRA will assume the company has control over you and view you as an employee. 2) Method of Compensation. Receiving payment by the hour, week or month (unless it is a lump sum spread overtime) usually

suggests that you are an employee. Payment by the job or a straight commission basis generally indicates a subcontractor relationship. 3) Number of Clients. If you work for only one client and continue to do so for a long period of time, you are likely to be considered an employee. However, if you regularly promote your services to prospective clients and hire and pay your own assistants to perform some of the work, you have a better chance of being classified as an independent contractor, even if your client list is currently limited to one company. 4) Chance for Profit or Loss. Most self-employed people can potentially suffer an economic loss because they have investments in equipment or inventory, or have a liability toward employees. If there is no risk of a loss in operating your business, the IRS may not view you as an independent contractor.

### THE TAX RAMIFICATIONS

As an employee, you share the costs of Social Security and Medicare taxes with your employer. You are responsible for paying 7.65 percent tax on the first \$60,600 of your wages and a reduced rate (1.45 percent) on wages above \$60,600. If you qualify as an independent contractor, you must pay both the employee's and that employer's share — or 15.3 percent tax up to \$60,600 and 2.9 percent on all net earnings above \$60,600. However, you can deduct one-half of your self-employment tax when computing your adjusted gross income.

Additionally, independent contractors can qualify for more business deductions than employees. Employees claim unreimbursed trade or business expenses as itemized miscellaneous deductions on Schedule A.

However, they can only deduct those expenses, which together with other miscellaneous expenses, exceed 2 percent of their adjusted gross income. Independent contractors

generally report their self-employment income on Schedule C (or Schedule C-EZ if they meet additional requirements) and can deduct all qualified business expenses without regard to the 2-percent threshold. Additionally, they can establish a retirement plan and deduct a portion of their business income which is used to fund the retirement plan.

Independent contractors must make quarterly estimated tax payments to the IRS if they

have taxable income. Employees have their taxes withheld from their paychecks by their employers and typically needn't file estimated tax returns unless they have substantial income from other sources.

If you're weighing the benefits of remaining an employee or opting for independent contractor status, the Nevada Society of CPAs recommends that in addition to taxes, you consider the cost of benefits. As an independent contractor, you

cannot participate in your client's tax-free benefit programs, such as pension, life or health insurance plans. Be sure you can afford the benefits necessary to protect yourself and your family.

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### Minority-Owned Company Awarded Contract

Southern Bell has awarded Columbia-based Am-Pro Protective Agency a three-year contract worth just under \$1 million for security services at six offices in South Carolina.

Am-Pro, one of the nation's largest minority-owned companies, had been going after Southern Bell's business for more than five years, said John Brown, Am-Pro chief executive officer and founder.

Am-Pro got the contract because it was competitive in price and quality, said Joe Anderson, president of Southern Bell in South Carolina.

But in announcing the contract Friday, Anderson was clearly excited that the contract was going to a minority-owned firm based in South Carolina.

As companies such as Southern Bell and its parent, BellSouth, downsize and

outsource activities not in their core businesses, such contracts can often go to a company elsewhere in the region, Anderson said.

The \$990,000 contract calls for Am-Pro to provide security services at Southern Bell's offices in Columbia and Greenville.

Southern Bell recently opened a new regional office building in downtown Charleston, which doesn't require such security services now.

"Southern Bell's business is changing and becoming more competitive," he said. "Likewise, the security of our facilities, employees and strategic information is more critical."

The contract involves 34 people at those six locations, Brown said. The company also (See *Minority-Owned*, Pg 21)

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