

FRANK L. SASSETTI & CO.

Certified Public Accountants

6611 W. North Avenue
Oak Park, IL 60302
Telephone (708) 386-1433
www.flsassetti.com



tax & business letter

IRS audit focus is on worker classification

One of the biggest headaches for business owners is the classification of their workers. If the wrong choice is made, the IRS could step in and assess additional taxes, penalties, and interest.

Employee or contractor? _____

Most employers would rather hire contractors, paying them as "independent" people and avoiding the imposition of any payroll taxes, worker compensation insurance, or other payroll-related benefits. This method is much cheaper for the employer and can be accomplished with much less paperwork. The IRS, on the other hand, stresses that workers that are truly employees must be classified as such, with the employer paying appropriate payroll taxes and benefits.

Reasonable basis _____

Simply calling an employee a "contractor" isn't good enough. There must be a reasonable basis to treat a worker as a contractor. If the IRS reviews worker classifications, they will be looking at the amount and type of control an employer has over the workers. If the IRS determines that workers who were classified and paid as contractors are really employees,

additional payroll taxes (both the employer and employee portion), penalties, and interest can be assessed against the employer. Make no mistake: these can be serious amounts of money.

Twenty factors _____

The IRS has developed twenty factors which are used on a case-by-case basis to determine if a worker is an employee or contractor. No one factor determines the classification. Instead, all of the factors are weighed, and the preponderance of those factors determines the correct classification.

Some of those factors include the instructions and training given to the worker, if the worker performs services for other clients, the location where services are performed, how the worker is paid (hourly indicates an employee), if the worker has his own tools, etc. You should review all of the factors for any of your questionable workers.

IRS priority _____

The IRS is looking to reduce the tax gap (the difference between taxes owed and taxes paid). Therefore, the proper classification of employees (and the imposition of additional payroll taxes and penalties) has become a priority issue for the IRS. Don't get caught in their sights. Make sure that your workers are classified correctly. Call us for assistance in walking the tightrope to the proper classification of all your workers. ♦

SUMMER TAX TIPS:

Summer is a good time to do business entertaining. Keep records of the cost, the date, the attendees, and the business purpose. Your deduction is limited to 50% of the cost.

Summer is the ideal time to create or update your estate plan as part of your overall tax-reduction efforts.

If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

If you have an unincorporated family business, hire your children to work this summer. Their wages are deductible to your business and will be taxed in their lower tax brackets. There's no social security tax on wages paid to your children who are under age 18. ♦

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IRS TAX TIPS