

With the economy still recovering, businesses might need extra help, but the uncertain financial climate and the costs of hiring give businesses second thoughts to hire.

Nonetheless, one solution could be hiring independent contractors. However, *be very careful*, a lot of businesses have become bankrupt and faced penalties because they treated their employees as independent contractors to avoid paying taxes. In fact, IRS hates the idea of independent contractors.

WHY INDEPENDENT CONTRACTORS MATTER

Independent contractors matter because under the federal laws, if your business has a "common law employee", your business needs to:

- Withhold employee's federal income tax from wages.
- Withhold half of employee's social security and Medicare taxes from wages.
- Pay half of employee's federal income taxes.
- Pay half of employee's social security and Medicare taxes.
- Pay Federal Unemployment Taxes.
- File federal payroll tax returns.
- Pay State and local unemployment taxes. And,
- Follow a myriad of other IRS and Department of Labor rules.

DETERMINATION OF EMPLOYEE OR INDEPENDENT CONTRACTOR

Determination of "common-law employee" is governed by various statutes, laws and regulations. IRS and Department of Labor rules differ from state and local regulations, to some extent. However, if the government agrees you have hired an independent contractor not an employee, you are in good shape.

To determine whether a hired worker is a "common-law employee" or independent contractor, courts look at different factors, including:

- What degree of control does the employer maintain over the hired person?
- Is there a degree of permanence?
- Is the worker an integral part of the business?
- How is the worker paid on the job? Is it by job, hourly, weekly or monthly?.
- Can the employer seek or work on simultaneous projects for different employers?
- Does the work require full-time or being present on the premises on a daily basis?

Simplistically, the more control you have over your employee and what they do or how they do it, the chances are the worker is a common-law employee.

COVER YOUR BASES

Since hiring independent contractors is a prudent business approach, you must ensure you are not violating any rules. One sure way to cover yourself is to go to IRS website and fill out Form SS-

8. You may want to turn in the form. While on IRS website, type in “worker classification” into their search engine and read it carefully.

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