

BEST TAX PRACTICE -

Independent Contractor

Yes, You Have A Business - It's a Sole-Proprietor Business!

101 NOVICE:

Many people receive income that is reported to them on a 1099-MISC and/or they receive cash income that is not reported on any form or document ("under the table"). Regardless, the IRS treats it all the same - as income, and you must declare it all, from the first dollar, whether or not someone issues you any document. The proper document someone would use to report that they paid you cash is the 1099-MISC.

So, either you work and are issued a W2 for wages (as an Employee) or you work for cash (as an Independent Contractor) for which you **may or may not** receive a 1099-MISC.

If you are not an employee and you work for which you receive payment, 1) you have a business; 2) you are an Independent Contractor and usually, monies spent in the course of conducting your business are called Expenses and can be written off against the income if they are "usual and ordinary." See **Recordkeeping and Receipts for Adjustments, Deductions, Credits, and Expenses.**

Everyone who files a tax return has a default business structure called Sole Proprietor. Each person and each business has its own set of records; do not combine people or businesses! If you have an arts & craft business where you sell dolls you make from pasta, you must keep separate records from your lawn care business - two different businesses, two different sets of records and recordkeeping. If you have two businesses and your spouse has two other businesses (i.e., they are an I.T. consultant and they have a multilevel marketing business) the two of you have 4 different businesses and need to maintain four sets of recordkeeping.

201 INTERMEDIATE:

The IRS rules are very clear as to whether you should be an Employee (W2) or can be an Independent Contractor (1099-MISC). There is a checklist of criteria the IRS and a state use to determine if you have been properly classified. If you are wrongly classified, there are actions you can take to (hopefully) rectify that wrong classification however, you are still required to report all of your income as you received it.

301 ADVANCED:

A. You may not be required but it is strongly advised that you acquire a Sole-Proprietor EIN (Employer Identification Number). Go to www.irs.gov and apply; there is no fee and after you have your Sole-Proprietor EIN, when you conduct your Sole Proprietor business(es), you will use your EIN in lieu of your Social Security number. The same Sole Proprietor EIN will be used for ALL of your Sole Proprietor businesses (i.e., your pasta dolls and lawn care businesses; likewise, spouses will want their own Sole-Proprietor EIN).

B. If you want to have a different business structure - other than Sole Proprietor, you must intentionally and deliberately create something such as a Partnership, an LLC, an S Corp, or a Corporation – all of which will require their own different EIN for that structure.

BEST PRACTICE: *Claim all your cash income even if you did not get a 1099-MISC – it's the law!*

POSTSCRIPT: The person that has hired you as an Independent Contractor has avoided paying into the state workman's comp insurance fund and the unemployment insurance fund which has saved them money and in addition to saving that money, they are putting upon you, their share of your Social Security taxes (about 7.65% of your income) that you will have to pay (in addition to your percentage for a total of 15.3%) when you file your tax return! Furthermore, you cannot collect unemployment from that job and should you get hurt on that job, either they have no workers comp insurance or if they do, it does not cover you as you are not an employee.