

How to Classify a Worker – Employee or Independent Contractor?

To determine worker classification from the IRS point of view, see Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding*. (See the IRS's website at www.irs.gov.) Here is a summary of the SS-8 factors, gleaned mostly from court decisions.

Factors Tending to Show the Worker Is an Employee of Your Business:

- You require—or can require—the worker to comply with your instructions about when, where, and how to work.
- You train the worker to perform services in a particular manner.
- You integrate the worker's services into your business operations.
- You require the worker to render services personally; the worker can't hire others to do some of the work.
- You hire, supervise, and pay assistants for the worker.
- Your business has a continuing relationship with the worker or work is performed at frequently recurring intervals.
- You establish set hours of work.
- You require the worker to devote the majority of the work week to your business.
- You have the worker do the work on your premises.
- You require the worker to do the work in a sequence that you set.
- You require the worker to submit regular oral or written reports.
- You pay the worker by the hour, week, or month, unless these are installment payments of a lump sum agreed to for a job.
- You pay the worker's business or travel expenses.
- You furnish significant tools, equipment, and materials.
- You have the right to discharge the worker at will and the worker has the right to quit at will.

Factors Tending to Show the Worker Is an Independent Contractor

- The worker hires, supervises, and pays their assistants.
- The worker is free to work when and for whom they choose.
- The worker does the work at their own office or shop.
- The worker is paid by the job or receives a straight commission.
- The worker invests in facilities used in performing services, such as renting an office.
- The worker can realize a profit or suffer a loss from their services, such as a worker who is responsible for paying salaries to their own employees.
- The worker performs services for several businesses at one time (although sometimes a worker can be an employee of several businesses).
- The worker makes their services available to the general public.
- The worker can't be fired so long as they meet the contract specifications.

People Who Are Automatically Employees by Law

In most situations, the status of a worker is determined by the above-listed factors, however certain workers fall into special tax categories, and the usual IRS criteria don't apply. Workers who are automatically employees include:

- officers of corporations who provide service to the corporation
- food and laundry drivers
- full-time salespeople who sell goods for resale
- full-time life insurance agents working mainly for one company, and
- at-home workers who are supplied with material and given specifications for work to be performed.

Supplement to Basics of Bookkeeping slides

Comparison on Cash vs Accrual financials

Construction Company, LLC	
Profit & Loss	
January through December 2017	
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01/01/18	
Accrual Basis	
	Jan - Dec 17
Ordinary Income/Expense	
Income	281,750.47
Cost of Goods Sold	209,678.90
Gross Profit	72,071.57
Expense	
61000 · Payroll Expenses	174,368.01
62000 · Professional Fees	2,279.23
63000 · Office Overhead	12,065.83
69000 · Other Expenses	2,818.07
Total Expense	191,531.14
Net Ordinary Income	-119,459.57
Other Income/Expense	
Other Income	67.98
Other Expense	1.28
Net Other Income	66.70
Net Income	-119,392.87

Construction Company, LLC	
Profit & Loss	
January through December 2017	
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Cash Basis	
	Jan - Dec 17
Ordinary Income/Expense	
Income	331,798.00
Cost of Goods Sold	190,106.50
Gross Profit	141,691.50
Expense	
61000 · Payroll Expenses	174,368.01
62000 · Professional Fees	2,279.23
63000 · Office Overhead	12,113.83
69000 · Other Expenses	2,818.07
Total Expense	191,579.14
Net Ordinary Income	-49,887.64
Other Income/Expense	
Other Income	67.98
Other Expense	1.28
Net Other Income	66.70
Net Income	-49,820.94

NOTES:

1. Accrual:

Income	\$281K
- Cost of Goods Sold + Expenses	<u>(\$400K)</u>
= Net Loss	<u>(\$119K)</u>

Cash:

Income	\$332K
- Cost of Goods Sold + Expenses	<u>(\$381K)</u>
= Net Loss	<u>(\$ 49K)</u>

Higher 2017 income using the Cash method suggests that we may have had **Accounts Receivable** at the end of 2016 that was recorded as income in 2016 using the Accrual method but would be 2017 income using the Cash method. Why? Because the Cash method records income when you receive the cash. Let's look at the 2016 Balance Sheet:

Construction Company, LLC	
Balance Sheet	
As of December 31, 2016	
	Dec 31, 16
ASSETS	
Current Assets	
Checking/Savings	70,294.86
Accounts Receivable	<u>161,899.00</u>
Other Current Assets	2,259.50
Total Current Assets	<u>234,453.36</u>
TOTAL ASSETS	<u>234,453.36</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	86,701.78
Other Current Liabilities	14,730.30
Total Current Liabilities	<u>101,432.08</u>
Total Liabilities	101,432.08
Equity	<u>133,021.28</u>
TOTAL LIABILITIES & EQUITY	<u>234,453.36</u>

Comparing the Accounts Receivable balance in 2016 (Accrual method) above to the balance in 2017 (Accrual method) below we see that Accounts Receivable decreased from \$162K to \$112K, a decrease of \$50K. This \$50K decrease from 2016 to 2017 in Accounts Receivable represents income in 2016 using the using the Accrual method and income in 2017 using the Cash method.

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Accrual Basis

Construction Company, LLC

Balance Sheet

As of December 31, 2017

	Dec 31, 17
ASSETS	
Current Assets	
Checking/Savings	14,038.80
Accounts Receivable	111,851.47
Other Current Assets	1,584.50
Total Current Assets	127,474.77
TOTAL ASSETS	127,474.77
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	113,846.36
Total Liabilities	113,846.36
Equity	13,628.41
TOTAL LIABILITIES & EQUITY	127,474.77

Notice no Accounts Receivable using the Cash method:

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Cash Basis

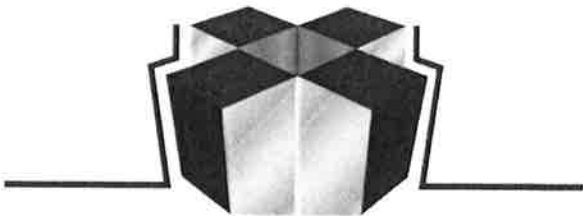
Construction Company, LLC

Balance Sheet

As of December 31, 2017

	Dec 31, 17
ASSETS	
Current Assets	
Checking/Savings	14,038.80
Other Current Assets	1,584.50
Total Current Assets	15,623.30
TOTAL ASSETS	15,623.30
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	3,601.98
Credit Cards	925.16
Other Current Liabilities	14,622.41
Total Current Liabilities	19,149.55
Total Liabilities	19,149.55
Equity	-3,526.25
TOTAL LIABILITIES & EQUITY	15,623.30

Invoice



BEYOND THE BOX ACCOUNTING
 Licensed Certified Public Accountants

PO Box 6277 Colorado Springs, CO 80934

Bill To
 {Client Name & Address}

Invoice #:	250
Invoice Date:	10/20/2017
Due Date:	10/30/2017

Date	Description	Hours	Rate	Amount
10/14/2017	{Detailed description of services performed - list each day separately}	2.0	1.00	2.00

Phone: 719.602.9317
 E-mail: paul@btbacct.com
 EIN: 47-2185270

Note that I have included my EIN so clients that need to issue me a 1099 will have the information at hand.

Total	\$ 2.00
Payments/Credits	\$ 0.00
Balance Due	\$ 2.00



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BEYOND THE BOX ACCOUNTING
 Licensed Certified Public Accountants

PO Box 6277 Colorado Springs, CO 80934

Statement

Date

1/1/2017

Amount Due

\$0.00

To:

{Client name & address}

Date	Transaction	Amount	Balance		
12/31/2015	Balance forward		0.00		
02/08/2016	INV #116. Due 02/08/2016.	2,571.45	2,571.45		
02/08/2016	PMT #4401.	-2,571.45	0.00		
03/03/2016	INV #117. Due 03/03/2016.	2,248.50	2,248.50		
03/24/2016	INV #119. Due 03/24/2016.	1,447.50	3,696.00		
03/28/2016	PMT	-3,696.00	0.00		
04/17/2016	INV #121. Due 04/27/2016.	3,227.00	3,227.00		
04/23/2016	INV #122. Due 05/03/2016.	1,001.00	4,228.00		
04/30/2016	INV #123. Due 04/30/2016.	969.50	5,197.50		
05/03/2016	PMT #4520.	-5,197.50	0.00		
05/19/2016	INV #125. Due 05/19/2016.	1,569.75	1,569.75		
05/19/2016	PMT #4557.	-1,569.75	0.00		
06/16/2016	INV #128. Due 06/16/2016.	2,935.90	2,935.90		
06/16/2016	PMT #1236.	-2,935.90	0.00		
07/11/2016	INV #133. Due 07/11/2016.	19.23	19.23		
07/13/2016	INV #134. Due 07/13/2016.	1,928.50	1,947.73		
07/13/2016	PMT #4628.	-1,947.73	0.00		
07/29/2016	INV #136. Due 07/29/2016.	997.50	997.50		
07/29/2016	PMT #4789.	-997.50	0.00		
08/23/2016	INV #138. Due 08/23/2016.	1,127.00	1,127.00		
08/23/2016	PMT	-1,127.00	0.00		
09/13/2016	INV #143. Due 09/13/2016.	1,036.00	1,036.00		
09/22/2016	PMT	-1,036.00	0.00		
12/30/2016	INV #163. Due 12/30/2016.	180.00	180.00		
12/31/2016	CREDMEM #215.	-180.00	0.00		
CURRENT	1-30 DAYS PAST DUE	31-60 DAYS PAST DUE	61-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	Amount Due
0.00	0.00	0.00	0.00	0.00	\$0.00

Beyond The Box Accounting

PO Box 6277

Colorado Springs, CO 80934

Purchase Order

Date	P.O. No.
1/15/2018	1

Vendor
Custom Signs

Ship To
Beyond The Box Accounting PO Box 6277 Colorado Springs, CO 80934

Item	Description	Qty	U/M	Rate	Amount
Sign	Detailed Description or item #	3		15.00	45.00
May personalize a message				Total	\$45.00