

Contractor vs Employee Comparison



Assuming you paid a worker as an independent contractor and the IRS reclassified wages to that of an employee AND assuming an IRS audit, the IRS deficiency notice would be similar to:

Independent Contractor Paid	Amounts
Contractor Amount	\$ 35,000
Payroll Wages	0
Withholding Unknown (0-28% Possible)	0
FICA (\$35,000 x 15.3%)	5,355
FUTA (\$7,000 x 6.2%)	434
TOTAL TAXES DUE	5,789
Penalties against Total Taxes Due	0
Failure to file Penalty 25%	1,447
Failure to deposit 10%	579
TOTAL COST	\$ 7,815
Minimum effective Tax Rate	22%

Now assume that the appropriate salary would be \$35,000, this would be your actual cost.

Employee Wages	Amounts
Employee Wages	\$ 35,000
Withholding (Withheld from employee wages)	-
FICA (\$35,000 x 7.65%)	2,678
FUTA (\$7,000 x 6.2%)	434
TOTAL TAXES DUE	3,112
Plus penalties against Total Taxes Due	0
Failure to file Penalty 25%	0
Failure to deposit 10%	0
TOTAL COST	\$ 3,112
Effective Tax Rate	9%
<i>Tax Savings for doing it right!</i>	<i>\$ 4,704</i>

*Actual federal income tax rate varies, and is can be more or less, depending on filing status, itemized deductions, and spousal earnings.

*This worksheet only takes into account federal payroll tax reclassification and does not address state unemployment or workers compensation insurance reclassification costs.

