

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% |
| Tax Savings for doing it right! | \$ 4,704 |

*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.



