

## CLASS #2 - Independent Contractors



### 1. What are things to consider when offering your service as an independent contractor?

- Consider the extra cost of self-employment taxes.
- Calculate that your earnings must cover the unworked time taken for holidays, illness, personal events, and vacation.
- Consider that you will need to pay for your own health insurance a
- Consider that you will need to fund your own retirement account.
- Consider you will need to provide liability insurance

### 2. How does the IRS test to see if someone is an independent contractor?

Review the 20-point test - [Handout 2.05](#)

### 3. What must Independent Contractors sign for tax reporting?

Review the Form W-9 – required of all NON-Incorporated businesses

### 4. What are the reporting requirements when you hire an Independent Contractor?

- [Review 1099](#)
- When is a 1099 issued?
  - Payments of at least \$10 in royalties
  - Broker payments instead of dividends or tax-exempt interest

At least \$600 in:

- Rents (box 1);
- Prizes and awards (box 3);
- Other income payments (box 3);
- Generally, the cash paid from a notional principal contract to an individual, partnership, or estate (box 3);
- Any fishing boat proceeds (box 5);
- Medical and health care payments (box 6);
- Crop insurance proceeds (box 9);
- Payments to an attorney (box 10)
- Section 409A deferrals (box 12); or
- Nonqualified deferred compensation (box 14).

Mention special rules for attorneys

### 5. By what date must the completed 1099 be sent?

- Is a copy sent to the IRS?

### 6. Exercise 2.11a Prepare Maria's 1099

- How many 1099s will Maria receive?
- Review Maria's completed 1099

**7. What happens when independent contractors receive cash?**

- Must it be reported if they do not get a 1099?

**8. How do solo entrepreneurs and single-owner LLCs report their business income?**

- **Review Schedule C**
- Discuss how to set up bookkeeping to make tax reporting easy