

The Necessary Employee Forms from W-2s to 1099s

presented by

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Employee or Contractor?

There are three basic areas which determine employment status:

- Behavioral control
- Financial control
- Type of Relationship

Behavioral Control

These facts show whether there is a right to direct or control how the worker does the work

- Instructions
 - how, when, or where to do the work
 - what tools or equipment to use
 - what assistants to hire to help with the work
 - where to purchase supplies and services
- Training

Financial Control

These facts show whether there is a right to direct or control the business part of the work.

- Does the worker has unreimbursed business expenses?
- Did the worker invest in the facilities used in performing services?
- Does the worker makes his or her services available to the relevant market?
- How do you pay the worker?
- Can the worker can realize a profit or incur a loss?

Type of Relationship

These facts show how the business and the worker perceive their relationship.

- Do you have written contracts describing the relationship the parties intended to create?
- Is the worker available to perform services for other, similar businesses?
- Do you provide the worker with employee–type benefits, such as insurance, a pension plan, vacation pay, or sick pay?
- How permanent is the relationship?
- Are the services performed by the worker a key aspect of the regular business of the company ?

Employees

- You must withhold income tax and your employee's portion of social security and Medicare taxes.
- You are also responsible for paying social security, Medicare, and unemployment (FUTA) taxes on your employees' wages.
- You must file a Form W-2, *Wage and Tax Statement*, showing the amount of taxes withheld from your employees' pay.

Form W-2

The Form W-2 is used by employers to:

- Report wages, tips and other compensation paid to an employee.
- To report the employee's income tax and Social Security taxes withheld and any advanced earned income credit payments.
- To report wage information to the employee, the Internal Revenue Service and the Social Security Administration.

W-2's in QuickBooks

- Basic Payroll
 - No tax forms, only reports that your accountant can use to prepare them
- Enhanced Payroll
 - Includes all federal and many state tax forms, you pay taxes and file forms
- Assisted Payroll
 - Intuit handles your payroll taxes for you

Independent Contractors

- You may be required to file Form 1099-MISC, *Miscellaneous Income*, to report what you have paid to your independent contractors.
- You do not have to withhold taxes from your independent contractors' pay. They are responsible for paying their own income tax and self-employment tax.

Form 1099-MISC

The Form 1099-MISC is:

- Used to report payments made in the course of a trade or business to another person or business who is not an employee.
- Required among other things, when payments of \$10 or more in gross royalties or \$600 or more in rents or compensation are paid.
- Provided by the payer to the IRS and the person or business that received the payment.

1099's in QuickBooks

- Turn on 1099 preference
 - Edit > Preferences > Tax: 1099 > Company Preferences tab, check box next to Do you file 1099-Misc forms and select accounts you use to pay subcontractors next to Box 7
- Setup subcontractors as 1099 vendors
 - Double-click on vendor, select Additional Info tab, check box next to Vendor eligible for 1099
- Manage reporting process
 - Vendors > Print 1099's/1096