

RIGHT RISK™

How Much Risk is Right for You?

DATES TO REMEMBER

Margin Protection Program Dairy (MPP-D)
- 2017 crop year
July 15th-Sept. 30th

Fall crops sales closing date
- September 30th

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2016 for 2017 crop year coverage

Acreage Reporting:
- November 15th

For more information see:
<http://www.rma.usda.gov>
<http://www.fsa.usda.gov>

RIGHT RISK NEWS

Employees or Independent Contractors?

Farmers often hire people to perform work and provide services to their businesses. The Internal Revenue Service allows business owners to deduct reasonable wages paid for farm labor, piecework, and contract labor. The wages can be paid in cash and/or non-cash. Other deductible expenses include boarding farm labor, health insurance, worker's compensation insurance, and other benefits.

It is critical for business owners to correctly determine whether the individuals providing services are employees or independent contractors. Generally, a worker who performs services for a farmer is an employee if the farmer has the right to control what will be done and how it will be done.

In determining whether a person providing service to the farm is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered. Facts that provide such evidence fall into three categories:



Photo credit: Tom Foulke

1. Behavioral – does the business control or have the right to control what the worker does and how the worker does his or her job? An employee is required to comply with instructions about when, where, and how to work. Even if no instructions are given, the control factor is present if the employer has the right to give instructions. Independent contractors ordinarily use their own methods and receive no training from the purchasers of their services.
2. Financial – Are the business aspects of the worker's job controlled by the business? These aspects include, but are not limited to, how the worker is paid, whether expenses incurred by the worker are reimbursed, and who provides the tools, equipment, and supplies. Also, an employee is not significantly impacted by the profitability of the business, while an independent contractor can enjoy a profit or suffer a loss.
3. Type of Relationship – Are there written contracts or employee type benefits? Will the relationship continue and is the work performed a key aspect of the business? An independent contract offers his or her services to multiple unrelated persons or businesses at the same time.



A business owner must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors may suggest the worker is an independent contractor. There is no "magic" or set number of factors that causes a worker to be classified as one or the other. Further, no one factor stands alone in making the determination. The key is to look at the entire relationship, consider the degree or extent of the right to direct and control, and to document each of the factors used in the determination.

A farmer must withhold Social Security and Medicare taxes on all cash wages paid most employees. Such taxes must be withheld from cash wages if (1) the employer pays cash wages to an employee of \$150 or more in a year for farm

HIGHLIGHTED COURSES

Most farm and ranch owners plan to transition their business to other family members—the next generation. Often this is cited as the number one goal of family businesses. However, while many programs and materials have been developed to help families transfer business ownership to the next generation, few resources are available to help with transferring management responsibilities.

While it is true that only a third of all family businesses successfully transition to the next generation, the reasons behind why families do not adequately prepare for the change are many. There are tools to help successfully plan and accomplish a smooth transition of business ownership, leadership, and management of any family business.

A series of online courses is available from RightRisk entitled *Management Succession: 1. Where Are We?, 2. Where Do We Want to Go?, and 3. How Do We Get There From Here?* The series is designed to help farm and ranch families improve the chances of successfully transitioning the business to the next generation. The courses include electronic tools to help understand where a family is in the process, worksheets, links to other materials, and a resource workbook to tie it all together.



To access the Management Transition courses, see: RightRisk.org > Courses

EMPLOYEES OR INDEPENDENT CONTRACTORS? CONTINUED FROM PG. 1

work or (2) total cash wages paid to all employees is \$2,500 or more during the year. The Social

Security tax rate is 6.2 percent, for both the employee and employer, on the first \$118,500 paid to each employee. The Medicare tax rate is 1.45 percent, for both the employee and employer, on all wages.

On the other hand, independent contractors are compensated for doing a specific task. They are the masters of their own time and must provide their own tools and other items and skills necessary to complete the job. A farmer does not withhold taxes from payments made to independent contractors.

There are several important dates by which farmers and other business owners must deposit taxes withheld from employees and file particular reports. These dates may vary by a few days due to the dates falling on weekends or national holidays. Further, there are specific forms for filing the required federal reports, and certain states may require employers to file additional state reports.

Paying people to work on or provide services to a farm business can be complicated. Farmers should consult with their professional tax preparer to determine whether an individual will be considered an employee or an independent contractor; calculating tax withholdings from employee wages; depositing tax withholdings; and filing all applicable federal reports. Farmers may find IRS Publication 51 (Circular A – Agricultural Employer's Tax Guide) and other IRS publications to be useful when paying people to work on their farms.

RightRisk professionals conduct educational programs and providing individual coaching about taxes, employees, and other management issues. There are a number of valuable resources available at the RightRisk web site – RightRisk.org.

RIGHTRISK™

- Education
- Coaching
- Research

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RightRisk helps decision-makers discover innovative and effective risk management solutions.

RightRisk News is brought to you by the RightRisk Team

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How much risk is right for you and your operation?

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