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March 2001 - WHAT'S BETTER? A W-2 OR A 1099? And Other Commonly Asked Tax Questions

Tax day is coming faster than any of us would like, to help you prepare for it, here are the answers to some of the more commonly asked questions we are receiving in our office this year.

How Do I Check on the Status of My Refund?

You can phone the IRS toll-free at 1-800-TAX-1040 (or 1-800-829-1040 if you prefer). Wait times for a response vary, but have something you can do with your hands while you are on hold, because it usually is 20 to 60 minutes. Very early in the morning (6 to 8 am), especially on Saturdays, you can occasionally get right through without listening to their symphony on hold.

Be prepared with your social security number and the date you filed your return. If you file early (before March 15), you can often have your refund in 3 or 4 weeks. Opting for electronic deposit can reduce this by 7 to 10 days. If your refund is taking longer, the IRS can give you information over the phone. Often the delay is because of discrepancies between name spellings or social security numbers you listed on your tax return and their computer records. Calling to check in helps to resolve these problems and get your refund to you quicker. Keep in mind however, that often the IRS is reluctant to discuss delays in processing refunds until 45 days have passed from the day you filed.

I'm Retired. Do I Still Have to File a Tax Return?

The answer to this question is a resounding MAYBE! Generally, if you are over 65, single, and your income (not including Social Security) is less than \$8,300, you do not have to file a tax return. Exceptions include those who have a part-time business with sales exceeding \$400, these people must file even if they have no other income.

If you are married, and both of you are over 65, then your income (again not including Social Security) can be as much as \$14,650 in most cases before you are required to file a tax return.

Please understand that there is no age limit after which you automatically do not have to file a tax return. Many people believe that since Congress passed a law last year eliminating earnings limits on Social Security recipients over 65, that this same law made it possible to earn as much as you can after age 65 without paying income taxes. This is simply not true. In fact, in many cases, as much as 85% of Social Security is included in taxable income! This means that taking a little extra out of your retirement funds will result in taxes on the amount withdrawn, plus additional tax on your Social Security income that you wouldn't have paid otherwise.

What's Better: A W-2 or a 1099?

If you are an employee, a W-2 is better. This is because you are subject to Social Security and Medicare (FICA) taxes on income you earn from services you provide. With a W-2, your employer is recognizing you as an employee and is paying half of your FICA taxes. If you receive a 1099, your employer is stating that they recognize you as an independent business and that you are responsible to pay all of your FICA taxes. Since these taxes generally are 15.3% of employment income, this is a big responsibility! (In fact, about two-thirds of all taxpayers pay more in FICA taxes than in income taxes)

If you actually are an independent business, then the 1099 is proper, and allows you to claim legitimate business expenses as deductions from sales revenue in determining taxable income. Be sure to include all taxes in your expense calculations when you compute how much your selling prices need to be to cover these expenses and leave a fair profit for both your work and a reasonable return on your investment in the business as well. This means you should be charging your customers more than an employee would. You should also seriously consider incorporating your business, both for the liability protection it provides and for the opportunity to separate employment wages from investment return when filing and paying income taxes.

If you have a question you'd like to have answered in a future article, please contact me in care of the **Hurricane Valley Journal**.