

Extracted from 2007 MI Income Tax Withholding Guide

Reference: <http://www.michigan.gov>

Who is an Employee?

An employee is an individual who performs services for an employer who controls what will be done and how it will be done. It does not matter that the employer permits the employee considerable discretion and freedom of action, as long as the employer has the legal right to control both the method and the result of the services.

For further clarification of the term “employee,” see the Federal Employer’s Tax Guide, Circular E.

Extracted from a Guide to Starting a Business in MI

Reference: <http://www.michigan.org>

Hiring Employees: Employees vs. Contract Labor

Individuals may provide services to a business as either an employee or a contractor. Whatever status an individual has as an employee affects the taxes, liability, benefit costs and many other areas of a business. The question of an employee vs. contractor is a very critical issue and does NOT have a simple answer. There are many different tests the IRS may apply to determine whether an individual is an employee or contractor. Improperly classifying someone whom the IRS considers an employee as a contractor can result in very stiff penalties. When using contractors instead of employees for your business, it is important that you consult with a competent tax advisor prior to making a decision.