



LGT

FINANCIAL FOCUS



Lane Gorman Trubitt, L.L.P.
Accountants & Advisors

Accountants & Advisors for a New Economy

Downsizing Your Budget Without Downsizing Your Staff

With the continued recession and ongoing financial challenges associated with it, many not-for-profit organizations are finding it difficult to sustain themselves in this new economy. Some have even considered drastic responses, such as layoffs or eliminating some of the services they offer all together. While in a few cases drastic steps may be necessary to survive, there may still be some alternatives yet to consider.

More and more not-for-profit organizations are mulling over the possibility of changing some of their employees to independent contractors. By making this move some organizations can save themselves a significant amount of money by not having to pay for benefits and afford themselves more flexibility with their staff. This can be a beneficial cost-saving measure, allowing you to reduce your budget while maintaining your staff. However, there are some important details you'll want to consider before making the change.

There are a rigorous set of tax laws and tests used for determining whether or not a worker truly is an independent contractor or an employee. Any worker that is found to be inappropriately designated as an independent contractor during a payroll tax audit could result in a hefty penalty. Since the employer gains the largest benefit for an employee's designation, it is the employer's responsibility to prove the worker's classification as an independent contractor is accurate.

According to the law, the key differentiator in determining a worker's status as an independent contractor or an employee is who has the right to control or direct what and how work is to be done. In order to be classified as an independent contractor the organization employing the worker has control over only the result of the work performed, and cannot dictate the methods used to accomplish that result. Because of this stipulation it is unlikely that any worker involved in a core service for the not-for-profit would be able to qualify as an independent contractor, but other workers who offer periphery services such as accounting or even marketing could potentially qualify.

Hiring staff through an independent staffing company, such as LGT's Creative Financial Staffing (CFS), can be one way to insure their status as an independent contractor. CFS has a ready supply of candidates with extensive experience working in the not-for-profit space. If you're interested in learning more about the candidates CFS has to offer, feel free to contact Melissa Hurta, CFS Staffing Manager at 214-461-1441 or by email at mhurta@lgt-cpa.com.

Because of the nuances involved in the definition of an independent contractor as defined by the law, it is a good idea to inquire with your trusted advisor at Lane Gorman Trubitt, L.L.P. before initiating any kind of change. If you have any questions, or are just interested in researching if changing an employee's status to that of an independent contractor would be a viable option for your organization, please contact Dawn Möeder, partner – not-for-profit, at 214-461-1532 or by email at dmoeder@lgt-cpa.com.

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