

IOWA WITHHOLDING TAX INFORMATION BOOKLET

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WHO MUST ACT AS AN IOWA WITHHOLDING AGENT?

Every employer who maintains an office or transacts business in Iowa and who is required to withhold federal income tax on any compensation paid to employees for services performed in Iowa is required to withhold Iowa individual income tax from that compensation. The amount withheld is calculated using tables or formulas provided in this booklet. Special rules for withholding on pensions, gambling winnings, and supplemental wage payments are explained in this booklet. **All withholding payments to the department must be the actual amount withheld. No estimations or approximations are permitted.**

Registering as an Iowa withholding agent

First [register with the Internal Revenue Service to obtain a Federal Identification Number \(FEIN\)](#). You may also call 1-800-829-4933. There is no fee for registering.

Then [register online with Iowa](#) or obtain the [Iowa Business Tax Registration form \(pdf\)](#). To obtain the paper form by fax, call 1-800-572-3943 and order number 0078005. Please allow four to six weeks to process your application. There is no fee for registering.

EMPLOYEE EXEMPTION CERTIFICATE (IA W-4)

Within 15 days, each new hire and rehire is required to complete and sign an Iowa W-4 (44-019). It must show the number of allowances the employee is claiming for family members, for itemized deductions, or for the child/dependent care credit. If for any reason the employee does not complete an IA W-4, the employer must withhold at zero allowances. Reference 701 — 46.3(2) Iowa Administrative Code

Employers must keep copies of W-4 forms in their files for at least four years. Reference 701 — 46.3 (2)e Iowa Administrative Code

The Iowa [W-4 is available online \(pdf\)](#). To obtain it by fax, call 1-800-572-3943 and order number 0044019. (The [federal W-4](#) is available on the IRS Web site at www.irs.gov)

Who qualifies for exemption?

An employee who does not expect to owe tax during the year may file the Iowa W-4 (44-019) and claim exemption from tax.

A married couple or a head of household with a total income of \$13,500 or less for the year may file for exemption. A single person may file for exemption if income is \$9,000 or less. If the person has income of less than \$5,000 and is claimed as a dependent on someone else's return, he or she is exempt. Persons with incomes above these amounts should not file for exemption from withholding.

About the top portion of the IA W-4: Iowa Centralized Employee Registry Form

The top portion of the Iowa W-4 (44-019) must be sent to the Iowa Department of Human Services. It is called the Iowa Centralized Employee Registry form.

An employer doing business in Iowa who hires or rehires an employee must send the Centralized Employee Registry Reporting form within 15 days of the hire or rehire date to the Iowa Department of Human Services (IDHS). Employers must keep copies of the completed IA W-4 forms in their files.

The Iowa Department of Human Services (IDHS) has a Web site for completing and submitting the Centralized Employee Registry Reporting form. The Web site is an easy, paperless means of filing this required information. This form may also be faxed or mailed to IDHS. Employers may call IDHS at (877) 274-2580 or e-mail csrue@dhs.state.ia.us with questions about this form.

The Centralized Employee Registry form may be submitted by:

- ┆ Mail - CER, PO Box 10322, Des Moines, IA 50306-0322
- ┆ Fax - 1-800-759-5881
- ┆ Web site - www.iowachildsupport.gov (Centralized Employee Registry Reporting form)
- ┆ CD/diskette - mail to CER, PO Box 10322, Des Moines, IA 50306-0322 (Please contact IDHS for file layout)

Note: [Contractor Reporting Form \(470-3100\)](#) (pdf) provided by the Iowa Department of Human Services is not an online process.

Notice to independent contractors

If you are an independent contractor, you do not complete a W-4. Instead, you will make estimated payments on your income. Contact our department for information on how to make estimated payments. See our individual income tax forms page for estimated forms and instructions.

Note, however, you also must complete a Centralized Employee Registry form from the Iowa Department of Human Services. The person with whom you are contracted may have a supply of these. Otherwise, call IDHS at 1-877-274-2580 to obtain one or use the top of the IA W-4.

If you want the Internal Revenue Service to determine if you are an employee or an independent contractor, file [IRS Form SS-8](#) (pdf), Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding. You may also call the IRS at 1-800-829-3676 to obtain this form.

WHAT INCOME IS SUBJECT TO WITHHOLDING?

Wages and other employee compensation

Iowa income tax withholding is applied to the same wages and compensation to which federal withholding applies. Certain payments made by the employer into employee retirement plans or for employee health insurance are not considered wages and are not included in the calculations of

withholding tax. See IRS Publication 15, Circular E, for details.

Supplemental wages

"Supplemental wages" includes a bonus, overtime pay, commission or other special payment that is made in addition to the regular wage payment. If federal income tax is withheld on a flat rate basis, Iowa income tax must be withheld at the rate of 6 percent. However, if the supplemental wage payment is included with the regular wage payment, the two are combined and the withholding tables or formulas are used. Reference 701 — 46.2(3) Iowa Administrative Code

Winnings from gambling

Tax must be withheld at the rate of 5 percent from lottery winnings and winnings from games of skill, games of chance and raffles in excess of \$600, pari-mutuel winnings of more than \$1,000, and winnings in excess of \$1,200 from slot machines on riverboats or at racetracks. Reference 701 — 46.1(1)d Iowa Administrative Code

Agricultural wages

Wages paid to agricultural labor are subject to withholding for state income tax purposes to the same extent that the wages are subject to withholding for federal income tax purposes. An employer must withhold federal income tax if more than \$2,500 in wages is paid during the year to all employees or if an individual employee has at least \$150 in wages for agricultural labor in the calendar year.

Nonwage withholding requirements

"Nonwage income" includes pensions, annuities, supplemental unemployment benefits, sick pay benefits and other nonwage income payments to Iowa residents. Iowa income tax must be withheld in cases where federal income tax is withheld. In situations where no federal income tax is withheld, the receiver of the payment may choose to have Iowa withholding taken out.

Iowa withholding is not required when payment amounts or taxable amounts of nonwage incomes fall below certain levels, when payments are not subject to Iowa income tax, or when no federal income tax withholding is required on those payments.

State income tax is not required to be withheld if the amount of the distribution is \$500 per month or less or if the taxable amount is \$500 or less and the person receiving the distribution is eligible for the partial exemption of retirement benefits. In instances where the distribution amount or the taxable amount is more than \$500 per month but less than \$6,000 for the year, no state income tax is required to be withheld, if the person receiving the distribution is eligible for a partial exemption of retirement benefits. Reference 701 — 46.2(1)c Iowa Administrative Code

Pension recipients who are age 55 or older or disabled should complete the IA W-4P.

Withholding on nonwage income may be made at a rate of 5 percent. Withholding agents should be aware that in certain cases the 5 percent rate may be excessive.

Pension and retirement income exclusion (IAW-4P)

A partial exemption is provided for pensions, annuities, self-employed retirement plans, deferred compensation, IRA distributions, and other retirement benefits to qualified individuals. The Iowa Withholding Certificate For Pension or Annuity Payments (IAW-4P) form is to be completed by recipients of these kinds of income payments to determine the amount of Iowa income tax withheld.

Note: Social Security benefits are not included.

To qualify you must be 55 years of age or older, disabled or a surviving spouse of an individual who would have qualified. The exemption is up to \$12,000 for a joint filing status and up to \$6,000 for all other filing statuses.

Nonresident wage and salaries

Employers doing business in Iowa must withhold Iowa individual income tax from the wages and salaries of nonresident employees working in Iowa. Withholding for nonresidents is computed the same as for residents.

See Iowa-Illinois reciprocal agreement.

Other nonresident income

The payer or withholding agent may withhold on a one-time basis. The payer should complete a paper Iowa Business Tax Registration form stating this to be a one-time report. The withholding payment may be sent in with the completed application to the address on the application form.

The following additional types of income to nonresidents are subject to Iowa withholding:

- ┆ Compensation paid to entertainers performing in Iowa - with exceptions - (but not payments to entertainment corporations). See "Wages of nonresidents engaged in film production or television production..." for further information.
- ┆ Rental payments received from Iowa property
- ┆ Taxable Iowa-source income paid to a beneficiary of an Iowa estate or trust
- ┆ Iowa-source income received by a nonresident partner or shareholder of a partnership or S corporation doing business in Iowa
- ┆ Income derived from any business of a temporary nature such as contracts for construction or fees paid for services in Iowa.

Do not withhold from nonresidents working in Iowa as employees of railroads and trucking firms in interstate commerce if they are working in other states as well. Withholding should be made for the state of the employee's residence for these nonresidents.

Iowa-Illinois reciprocal agreement

Iowa and Illinois have a reciprocal agreement on withholding tax.

Wages earned in Illinois by an Iowa resident are subject to Iowa withholding tax. The employee should file an Iowa W-4 and an Illinois form declaring Iowa residency (form IL-W-5) with the Illinois employer.

Illinois residents who work in Iowa have Illinois state income tax withheld from their wages. An employer who hires an Illinois resident to work in Iowa is required to obtain and keep on file an [Employee's Statement of Nonresidence in Iowa \(Iowa Form 44-016\)](#) (pdf) to verify that Illinois tax should be withheld instead of Iowa tax.

Unemployment benefit payments

Recipients of benefits may choose to have state income tax withheld from the benefit payments at a rate of 5 percent. Questions concerning state unemployment are answered by Iowa Workforce Development at 1-800-562-4692.

TAXABLE COMPENSATION NOT SUBJECT TO IOWA WITHHOLDING

Exemptions from Iowa withholding follow the guidelines of the Internal Revenue Service, with the following exceptions:

- ┆ Domestic workers and clergy are generally excluded from Iowa tax withholding requirements. However, if they anticipate an Iowa tax liability of \$200 or more and are not subject to withholding, they may be required to submit quarterly estimated payments.
- ┆ Interest and dividends are not subject to Iowa withholding.
- ┆ Wages of nonresidents engaged in film production or television production are not subject to Iowa withholding tax if the withholding agent provides certain information to the department. This includes each nonresident employee's name, permanent address, Social Security Number, and estimated amounts the employee is to be paid. See "Other nonresident income" for further information on entertainers/entertainment companies.
- ┆ Agricultural payments to nonresidents are exempt from Iowa withholding if the withholding agent provides certain information to the department about the sales of agricultural commodities or products. The following information must be given:
 - ┆ Name, address, Social Security Number of each nonresident; payments made in the calendar year to the nonresident; county or counties in which the nonresident worked, owned or leased property, had products stored or livestock located.
 - ┆ The type of agricultural commodities or products: commodity credit certificates, grain, livestock, domestic fowl, or others.
 - ┆ Note: Although these types of payments are not subject to Iowa withholding, they are subject to Iowa income tax in most instances.

REPORTING AND PAYING THE TAX

Filing Frequencies

- ┆ Quarterly if you remit less than \$6,000 tax per year (less than \$500 per month)
- ┆ Monthly if you remit \$6,000 - \$120,000 tax per year (\$500 - \$10,000 per month)
- ┆ Semi-monthly if you remit more than \$120,000 tax per year (more than \$10,000 per month; more than \$5,000 semi-monthly)

Filing withholding

Every employer is required to file for each period during the calendar year, even if compensation was not paid during a period. If no wages or compensation was paid during a period, the employer will enter zeroes.

All withholding agents are required to file a quarterly return.

All semi-monthly filers are required to remit payment electronically and to file semi-monthly deposit forms and the quarterly return.

Withholding returns are submitted through the eFile & Pay system. Once you are registered as a withholding agent, the department will send you a Business eFile Number. This number is necessary to access the paperless system. To file online, go to our Web site and click on "eFile & Pay." To use the touch-tone telephone system, call 1-800-514-8296. Telephone scripts are available on the department's Web site and by automated TaxFax. Paper deposits and return forms are not provided on the department's Web site or through its TaxFax system. However, paper payment vouchers mailed to permit holders who qualify to pay with check or money order should be used when paying by paper. For assistance using the eFile & Pay system, call 1-866-503-3453 or 515/281-8431.

Information required to complete the quarterly return includes the Iowa withholding permit number, tax period being filed, total tax withheld for the quarter, prior payments made during the quarter, amount of credits/adjustments.

Each credit claimed against withholding tax is recorded separately on the quarterly return. Credits that may be claimed against withholding tax are as follows:

- | **The Iowa New Jobs Training Program Credit (NJC)** – This credit is available to businesses to cover the cost of approved training programs entered into with community colleges for new employees hired due to business expansion, the start-up of a new business, or relocation from outside Iowa. The credit amounts to 1.5% or 3.0% of the gross payroll attributable to the new employees, depending on the achievement of certain wage targets. The credit may only be claimed after payments are made to the community college under terms of the job training agreement. (Iowa Code 260E)
- | **The Supplemental New Jobs Credit (SJC)** – Businesses located in an enterprise zone or eligible for the New Jobs and Income Program (NJIP) may also be eligible to receive additional job training credits equal to 1.5% of the gross wages of new employees engaged in approved job training under the 260E program. (Iowa Code 15.331)
- | **The Housing Assistance Credit (HAC)** – Businesses located in an enterprise zone may elect to take this credit, which provides down payment assistance or rental assistance for employees in new jobs. If this credit is taken then the Supplemental New Jobs Credit may not be taken. (Iowa Code 15E.196)
- | **The Accelerated Career Education Credit (ACE)** – Businesses participating in the program may claim a credit of up to 10 percent of the hiring wage that would be paid to individuals completing approved training by community colleges. (Iowa Code 260G)

Additional information regarding these programs may be obtained on the [Iowa Department of Economic Development Web site](#).

Remitting the tax

Payment options include:

- | [ePay](#) (electronic check; also known as direct debit)
- | ACH Credit
- | [Credit card](#) (a 2.5% convenience fee is charged by Official Payments Inc.)
- | Check or money order

If you qualify and prefer to pay with check or money order, please use the payment vouchers you received in the mail. The payment vouchers are important to match your payment to your online or telephone return. You will receive a year's worth of payment vouchers; please keep them in a safe place. The voucher is not a return; you must file a return even if you make a payment with the voucher. Do not mail the payment voucher if a zero balance is due or if your payment was made electronically. These vouchers are not available on the department's Web site or through its TaxFax system.

All semi-monthly filers are required to remit payment electronically and to file semi-monthly deposits and the quarterly return.

FAILURE TO WITHHOLD

A withholding agent who fails to withhold and pay to the department any money required to be withheld and paid is personally, individually and corporately liable to the State of Iowa. If this occurs, the amount of withholding may be assessed against the withholding agent in the same manner as is used to assess personal or corporate income tax.

BONDING

If an employer or withholding agent fails to remit the required withholding tax by the due date, the

department may require a bond to ensure timely payment in the future.

PENALTY AND INTEREST

Any return received with a US Postal Service postmark dated after the day on which the return was due is considered delinquent.

Penalty for failure to timely file

A penalty of 10 percent is added to the tax due for failure to timely file a return if it is not mailed by the due date and at least 90 percent of the correct tax is not paid by the due date. The penalty can be waived only under limited circumstances.

Penalty for failure to timely pay

A penalty of 5 percent is added to the tax due if the return is timely filed but at least 90 percent of the correct tax is not paid by the due date. The penalty can be waived only under limited circumstances.

If both penalties apply, only the failure to file penalty of 10 percent applies.

Interest

[Interest](#) is added to unpaid tax at a rate prescribed by law from the due date of the claim until payment is received. eFile & Pay will automatically calculate any interest due.

END OF THE YEAR REPORTING

Verified Summary Report

All withholding agents are required to submit a completed Verified Summary of Payments Report (VSP) by the last day of February. This covers the Iowa income tax withholding payments made in the prior calendar year. For tax year 2005 (due in February 2006), the VSP is submitted online through eFile & Pay or by touch-tone telephone. Paper VSPs are not available.

Wage and tax statements (W-2)

Employers are no longer required to send copies of W-2s or 1099s with the VSP, which is due in February following the tax year. Employers are still required to keep copies of the W-2s and 1099s for at least three years from the end of the year for which the forms apply.

W-2s must be given to employees on or before the last day of January following the tax year or within 30 days of the time the last wage payment is received if requested by the employee. This statement must contain the name, address and federal employer identification number of the employer and the name, address, Social Security Number of the employee, the gross amount of compensation paid to the employee during the year and the amount of federal and state tax withheld. Reference 701 — 46.3(3)d Iowa Administrative Code

FREQUENT QUESTIONS AND PROBLEMS

Does the State of Iowa assign its own employer identification number?

The Federal Employer Identification Number is used as part of the Iowa withholding number with a 3-digit suffix added for Iowa registration. This means you need to get your Federal Employer Identification Number before getting your Iowa number.

See page 1 to register as an Iowa withholding agent.

I need to register to withhold Iowa tax from employees' wages, but have not yet received my Federal Employer Identification Number. What will my number be?

Complete the [Iowa Business Tax Registration form online](#). Choose "applied for" in the "Federal I.D. Number" blank. The department will issue a temporary identification number with a "00" prefix.

Once you receive your Federal Employer Identification Number, use the online [Change, Cancel or Reinstate Business Tax Registration system](#) or the [paper form \(92-033\)](#) (pdf) to update your Iowa permit number.

I began withholding from employees but failed to properly register first. Tax is due shortly. What should I do?

Complete the application and return it as soon as possible. Apply online or use the Business Tax Registration form (78-005).

If tax is due or will be due shortly, send a check for the amount withheld for the period to Withholding Tax Processing, Iowa Department of Revenue, PO Box 10411, Des Moines IA 50306-0411. Include the following: an explanation, your name and address, the period covered by the remittance, and your Federal Employer Identification Number.

The department will process your application and credit the amount paid to your account.

The due date for remitting tax has arrived and I am paying by paper instead of electronically, but I do not have a payment voucher. Is tax still due?

Yes. Tax is considered due even if no voucher is available. Remit the proper amount due with a note showing your correct name, address, eFile & Pay Confirmation Number, the period covered by the remittance, and your Iowa withholding permit number. Mail it to: Withholding Tax Processing, Iowa Department of Revenue, PO Box 10411, Des Moines IA 50306-0411.

If you feel there may be a problem with your account, contact the department. It normally takes 4-6 weeks from the time an application is filed until the vouchers for remitting tax payments are received.

Is the employer required to match the amount of Iowa income tax withheld from the employees' wages?

No. There is no matching of withholding of Iowa income tax from the employees' wages.

How is withholding calculated?

There are two methods of figuring the Iowa income tax withholding. The employer can use either the manual tables or the computer formula. Either method is acceptable. Both are available in this booklet.

From where does an employer obtain blank W-2s, Iowa W-4s and Iowa W-4Ps?

W-2s may be obtained from the Internal Revenue Service on the IRS Web site by calling 1-800-829-3676 or by purchasing them through an office supply/forms business.

Iowa W-4s and Iowa W-4Ps are available free of charge on the Iowa Department of Revenue Web site in the [withholding forms](#) section. You may have them faxed to you through our TaxFax system; call 1-800-572-3943 and order 0044019 for the W-4 and 0044020 for the W-4P.

I recently applied for my Iowa withholding permit number and need to make a payment. I have not received my number or the withholding payment vouchers to send with my check. What should I do?

You may send a note with your check made payable to Treasurer, State of Iowa. In the note and on the check, include the business name and address, your Federal Employer Identification Number, and the period end date.

Send payment and note to: Withholding Tax Processing, Iowa Department of Revenue, PO Box 10411, Des Moines, IA 50306-0411.

It is important to postmark your payment on or before the due date. If you are paying monthly, the postmark date is the 15th of the following month for the first two months of each quarter. The quarterly payment must be postmarked by the last day of the month following the end of the quarter. Example: For quarter end December 31, the payment must be postmarked by January 31 unless the 31st is on a weekend or holiday, then you have until the next business day to postmark your payment.

I recently applied for my Iowa withholding permit number and need to make a payment. I have received my Iowa number and Business eFile Number (BEN), but have not received the withholding payment vouchers. What should I do?

Payment options include:

- | [ePay](#) (electronic check; also known as direct debit)
- | ACH Credit
- | [Credit card](#) (a 2.5% convenience fee is charged by Official Payments Inc.)
- | Check or money order

Note: If you pay by mail, send a note with your check made payable to Treasurer, State of Iowa. Please include on the check and in the note the business name and address, your Iowa withholding permit number, the period end date, and the eFile & Pay Confirmation Number received when you filed your return.

Mail payment and note to: Withholding Tax Processing, Iowa Department of Revenue, PO Box 10411, Des Moines, IA 50306-0411.

EMPLOYEE OR INDEPENDENT CONTRACTOR?

You do not need to withhold income tax from wages paid to an independent contractor.

If you want the IRS to determine whether or not a worker is an employee, file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding, with the IRS. In doubtful cases, the facts will determine whether or not there is an actual employer-employee relationship. This form is available on the IRS Web site. To talk to an IRS tax specialist, call 1-800-829-1040.

If it is determined that you have employees and not independent contractors, you must act as a withholding agent on both the federal and state levels. To help you determine if your employees are actually independent contractors, consider the following factors issued by the Internal Revenue Service. They should help you determine if there is sufficient "control" present to establish an employer-employee relationship.

An employer must generally withhold federal income taxes, withhold and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to an employee. An employer does not

generally have to withhold or pay any taxes on payments to independent contractors.

Common-Law Rules

To determine whether an individual is an employee or an independent contractor under the common law, the relationship of the worker and the business must be examined. In any employee-independent contractor determination, all information that provides evidence of the degree of control and the degree of independence must be considered.

Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control, financial control, and the type of relationship of the parties. These facts are discussed below.

Behavioral control. Facts that show whether the business has a right to direct and control how the worker does the task for which the worker is hired include the type and degree of:

Instructions that the business gives to the worker. An employee is generally subject to the business' instructions about when, where, and how to work. All of the following are examples of types of instructions about how to do work.

- | When and where to do the work.
- | What tools or equipment to use.
- | What workers to hire or to assist with the work.
- | Where to purchase supplies and services.
- | What work must be performed by a specified individual.
- | What order or sequence to follow.

The amount of instruction needed varies among different jobs. Even if no instructions are given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved. A business may lack the knowledge to instruct some highly specialized professionals; in other cases, the task may require little or no instruction. The key consideration is whether the business has retained the right to control the details of a worker's performance or instead has given up that right.

Training that the business gives to the worker. An employee may be trained to perform services in a particular manner. Independent contractors ordinarily use their own methods.

Financial control. Facts that show whether the business has a right to control the business aspects of the worker's job include:

The extent to which the worker has unreimbursed business expenses. Independent contractors are more likely to have unreimbursed expenses than are employees. Fixed ongoing costs that are incurred regardless of whether work is currently being performed are especially important. However, employees may also incur unreimbursed expenses in connection with the services that they perform for their business.

The extent of the worker's investment. An independent contractor often has a significant investment in the facilities he or she uses in performing services for someone else. However, a significant investment is not necessary for independent contractor status.

The extent to which the worker makes his or her services available to the relevant market. An independent contractor is generally free to seek out business opportunities. Independent contractors often advertise, maintain a visible business location, and are available to work in the relevant market.

How the business pays the worker. An employee is generally guaranteed a regular wage amount

for an hourly, weekly, or other period of time. This usually indicates that a worker is an employee, even when the wage or salary is supplemented by a commission. An independent contractor is usually paid by a flat fee for the job. However, it is common in some professions, such as law, to pay independent contractors hourly.

The extent to which the worker can realize a profit or loss. An independent contractor can make a profit or loss.

Type of relationship. Facts that show the parties' type of relationship include:

Written contracts describing the relationship the parties intended to create.

Whether or not the business provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay.

The permanency of the relationship. If you engage a worker with the expectation that the relationship will continue indefinitely, rather than for a specific project or period, this is generally considered evidence that your intent was to create an employer-employee relationship.

The extent to which services performed by the worker are a key aspect of the regular business of the company. If a worker provides services that are a key aspect of your regular business activity, it is more likely that you will have the right to direct and control his or her activities. For example, if a law firm hires an attorney, it is likely that it will present the attorney's work as its own and would have the right to control or direct that work. This would indicate an employer-employee relationship.