

# Comparing Contractors and Employees

## Tax considerations for yoga instructors

**Disclaimer:** This example is for informational purposes only and is not meant to be tax advice. Every yoga teacher's employment scenario is unique, so please consult with your tax professional regarding any questions you may have.

In the example below, our hypothetical yoga teacher, Susan Savasana, is a RYT in the state of Virginia and teaches 16 75-minute classes per week (a total of 20 hours). Her studio pays teachers \$18/hour, regardless of whether the teachers are employees or independent contractors. The actual federal and state income taxes that Susan would pay on this income would depend upon many factors, including her other income, her marital status, whether or not she itemizes her deductions, etc. For purposes of this example, we will assume that Susan is single and claims the standard deduction. Also, assume that Susan has \$500 of expenses incurred in providing these yoga services and has \$1,000 of interest income.

The example below shows some of the significant differences in the tax treatment of this income depending upon the classification of the worker as an independent contractor or as an employee.

	Independent Contractor	Employee
Pay rate per hour	\$18	\$18
Hours worked per week	20	20
Gross income per year - yoga instruction	\$18,720	\$18,720
Deductible business expenses <sup>1</sup>	\$500	\$0
<b>Net instruction taxable income</b>	<b>\$18,220</b>	<b>\$18,720</b>
Interest income	\$1,000	\$1,000
Federal and VA income tax	\$1,348	\$1,643
Social Security and Medicare taxes paid by employee through payroll withholdings <sup>2</sup>	\$0	\$1,432
Self-employment taxes to be paid by yoga instructor individually through quarterly estimated tax payments <sup>3</sup>	\$2,574	\$0
<b>Total taxes paid by instructor</b>	<b>\$3,922</b>	<b>\$3,075</b>

This analysis is limited to tax considerations and does not consider the other costs of employees, including vacation days, paid holidays and any other benefits, including health care coverage or retirement plan participation.

<sup>1</sup> As an employee, Susan can deduct out-of-pocket business expenses as an itemized deduction. However, because she is claiming the standard deduction, she gets no tax benefit for the \$500 of expense. Even if she itemizes her deductions, the expenses are only allowable to the extent that they exceed a floor of 2% of her adjusted gross income (approximately \$400 in this scenario) or roughly \$100. As an independent contractor, Susan can deduction business expenses from her compensation in arriving at her taxable income.

<sup>2</sup> If Susan is classified as an employee, the studio owner must withhold 7.65% of her wages for Social Security and Medicare taxes. In addition, the studio owner must match these Social Security and Medicare amounts paid by Susan as an employer expense. (These matching amounts are tax-deductible to the studio owner.) The studio owner will also have to pay Federal and VA unemployment tax on the wages of each employee. In this scenario, the Federal rate is .008 and the VA rate is .01 on the first \$7,000 of compensation (total of \$126). An independent contractor is responsible for the self-employment taxes (15.3%) on her compensation. This amount effectively shifts the employer taxes onto the independent contractor.

<sup>3</sup> As an employee, Susan will have Federal and VA income tax withheld from her pay. As an independent contractor, Susan has to remit her expected tax to IRS and VA through quarterly estimated payments.