

Advantages of W-2 Employment

There are some reasons an individual would choose self-employment over working for someone else, but not everyone is willing to take on the problems and stress of owning a business. For some, the notion of running every aspect of a company is more than overwhelming. Those who are employed by a company have many advantages over those who are self-employed. Many of these benefits involve salary and taxes.

What is W-2 employment?

Individuals who are employed full-time by a business as a regular employee should receive a W-2 form. Independent contractors and independent consultants receive a form called a 1099. This form is a statement of payment from that company for the tax year if they were paid more than \$600.

According to the IRS, a company "has the right to control or direct only the result of the work [of an independent contractor] and not what will be done and how it will be done or method of accomplishing the result." Although the IRS uses a "20 questions" test to determine whether a worker is an employee or contractor, in general, under this definition, those whose method of working can be controlled by their employer are regular employees and receive a W-2.

Businesses that retain employees of this type are obligated by law to perform the following tasks:

They must pay income, Social Security, and Medicare taxes for the employee. Technically, these taxes are deducted from the employee's salary, but the employer is required to collect them and send them to the IRS on the behalf of the worker. Many companies supplement their employees' income in order to ease the burden of these taxes.

They must pay unemployment tax. The government gives aid to those who have lost their jobs and are trying to find work in the form of unemployment benefits. The funds for this program come from a tax on businesses with employees. The tax is not deducted from an employee's pay and is solely funded from company money.

They must issue a W-2. At the end of the tax year the employer must send copies of a completed W-2 to the employee and the Social Security Administration. This form will notify the government that the employee has received funds and allow the employee to file state and federal income tax.

What is a W-2?

A W-2 is a standard form designed by the Internal Revenue Service. At the end of a tax year, employers are required to fill one out and give it to their employees. The form itemizes deductions from pay for insurance, taxes, and other expenses. It also lists the employee's total income for the year and how much money they took home after taxes.

A W-2 can serve many purposes, but ultimately it is meant to aid the employee in filing their taxes for the year. The fields on the W-2 are numbered to correspond with common tax forms, so that the employee can easily fill in the blanks and make the correct calculations.

Advantages of W-2 Employment

Those individuals who receive a W-2 from their employer have the privilege of earning a regular salary. That is not to say that they are necessarily salaried, but the majority of these kinds of employees have regular hours that bring in a constant stream of income. This is probably the most advantageous part of being employed by someone else.

Freelancers and business owners are not guaranteed to make money for their efforts. Employees have a contract that promises them compensation for their labor. This steady stream of income makes budgeting and saving easier.

Employees are also often offered benefits like health insurance and retirement packages. Most of the time, their company goes in on these services with them in order to offset some of the cost. Any freelancer can attest to the high cost of private health insurance and saving plans. Employers often offer these services as further incentive.

More Advantages of Receiving a W-2

Though a W-2 employee may not be completely free to choose how and when they work, they are offered several advantages. Working as a W-2 means simplified tax filing with the employer withholding estimated taxes, as compared to managing your own taxes as an independent contractor and having to file quarterly tax estimates. A W-2 is not only useful for filling out one's taxes (although it is most suited to this purpose). Many government

and private agencies accept the forms as another form of identification. The document will always list the employee's social security number and full name, so it can be used in conjunction with a photo ID to prove one's identity.

Some loan companies and retailers who offer credit will also accept a W-2 as proof of income. This was more convenient before the era of digital banking, but the old paper method of proving employment is still used by some companies.

About the Author

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