Proper employee information reporting is a continuing problem for many farmers and ranchers. The IRS defines a common-law employee as an individual who performs services subject to the will and control of an employer, as to both what must be done and how it must be done. Two usual characteristics of an employer-employee relationship are that the employer has the right to discharge the employee and the employer supplies the employee with tools and a place to work. If you have an employer-employee relationship, it makes no difference how it is described. It does not matter if the employee is called an employee, or a partner, agent, or independent contractor. Further, it does not matter how the payments are measured, how they are made, or what they are called. An employer must generally withhold income taxes and social security taxes on wages paid to an employee.

Agricultural employees whose cash wages are subject to social security taxes are not required to have income tax withheld on their cash wages. You should ask each new employee to give you a Form W-4 on or before his or her first day of work. This certificate is effective for the first payment of wages and will last until the employee files another Form W-4. If an employee does not give you a Form W-4, you must withhold tax as if the employee were a single person who has claimed no withholding allowances.

You, as an employer, must collect and pay the employee’s part of social security tax and you must pay a matching amount. For 2002, the wage base was $84,900 for social security and is unlimited for Medicare; the social security tax rate was 6.2% each for employers and employees; and the Medicare rate was 1.45% each for employers and employees. These bases and rates change frequently; refer to IRS Publication 225 “Farmer’s Tax Guide” or Publication 51 “Circular A, Agricultural Employer’s Tax Guide” for the current base amounts and rates.

Social Security taxes and income tax withholding apply to all cash wages you paid during the year to an employee for farm and ranch work if either of the two tests below is met:
1. You pay $2,500 or more during the year to all employees for agricultural labor.
2. You pay cash wages to an employee of $150 or more in a year. The $150 test applies separately to each employee you employ. If you employ a family of workers, each member is treated as a separate employee.

Some employers and employees have utilized non-cash wages as means of avoiding the social security and income tax withholding requirement. If you are required to report wages, withheld income tax, or social security taxes, you must have an employer identification number (EIN) – a nine digit number separated as follows: 00-0000000. If you do not have an employer identification number, apply for one on Form SS-4, Application for Employer Identification Number, available at any IRS district office or Social Security Administration office or by calling 1-800-829-3676, or on-line at www.irs.gov.