

CraftSmartsNews

Volume No. 1 Issue No. 3 August 1999

In This Issue

- ▶ *Mea culpa -- I jumped the gun on the website announcement*
 - ▶ *Contract workers versus employees, keeping it straight with the IRS*
 - ▶ *Employee motivation, helping them to like the job*
 - ▶ *Employee remuneration, a review of compensation options*
 - ▶ *A novel approach to hiring good employees*
- Doing Well By Doing Good, what's your "buzz"?*
- ▶ *And a final word about the website*



Mea culpa -- my humble apologies to those who tried to find the "content" on the website right after the June newsletter mailing. . . .

As the old saying goes: "Stuff happens." As with any other publication, this newsletter is produced weeks in advance of its distribution. There is an enormous lead time for writing, production, printing, sorting and mailing -- and I don't have access to the vast staff that I used to rely on to get things done. I had anticipated that major portions of the website would be up and running by the time you received the June newsletter. Unfortunately, that didn't happen. This website is a complex animal, what with chat rooms, surveys, bulletin boards etc. I'm already on a steep learning curve, so to keep my sanity I had subcontracted the production to one of my associates in Dallas. Unfortunately Jeff has been dealing with some personal "stuff" of his own recently, and my website project got delayed. Please take a look at it now, and see if it was worth the wait. Also, please keep in mind that this is a first effort to be improved upon in the near future. I welcome all comments and suggestions. As I keep reminding you, CraftSmarts is your resource. Consequently I'd like to tailor it to your needs, and I'm not smart enough to be able to come up with all the issues alone.

Employees and contract workers: their nomenclature, motivation, and remuneration

If you are like me, then you are getting a little tired of all the numbers dancing around these newsletters. So, this month lets talk about the dignity of labor and how it relates to producing that huge volume of work that makes you such a successful craftsman.

Even the smallest, family run craft studio has at one time or another employed paid labor to increase output. This is good economics: there is a tremendous leverage effect on your profitability from hiring workers to produce your designs under your direction in volumes greater than you could yourself. However, I told you that we were going to stay away from numbers this time, so we'll save that little discussion for a future newsletter. Suffice it to say that having to deal with workers is a major transition in the way a crafts professional conducts business, and most of us have at least some difficulty with it.



In a nutshell:

How you classify workers has important tax consequences to your business



The rules governing contract worker status are precise and rigorously enforced by the IRS



Employees really don't ask for much: dignity, respect and fairness -- Duh!



Money is not the only motivational tool you have at your disposal



Your relationship with your workers is a social compact; your business will prosper or wither depending on your attitude



Act like a worker yourself, not like an owner; respect is a two way street



There's more than one way to skin a cat; a new approach to employees



Employment taxes - who pays?

	Business	Worker
federal withholding	0%	100%
state withholding	0%	100%
social security	50%	50%
Medicare	50%	50%
federal unemployment	100%	0
state unemployment*	100%	0
workman's comp insur.	100%	0

Employer's payroll taxes easily can add an extra twenty per cent to the base rate of pay. Additionally, the rules, regulations and forms are complex to the point of taking a significant amount of clerical time to administer. Add a few benefits and that \$10 an hour worker is costing you \$15 fully-loaded!

*a few states require the employee to fund this

Nomenclature -- why all the fuss?

What is the difference between a contract worker and an employee? And why does the government make such a big deal about the distinction anyway? More home businesses with workers get in more trouble with the IRS for miss-classifying their workers than for any other reason. If the IRS had its way, ALL workers would be classified as employees. Why? Because it makes their life easier and brings in more taxes. It's much easier for the IRS to use you as its tax collector, than for IRS agents to go around chasing down all of your contract workers for tax money.

Contract workers

In a typical scenario the so-called contract worker is physically located in your studio on a full or part time basis, uses your tools and equipment, and is paid an hourly wage with no deductions taken out. When the IRS discovers this (and they will find out!) this worker is reclassified as an employee, federal employment taxes are imputed (social security, Medicare and unemployment), interest and penalties are assessed, and you discover that the effective rate of pay for the worker newly-promoted to employee is about double what you thought it was. And of course it just gets worse: the IRS shares its new information with the State taxing authorities, who will want to talk to you about workman's compensation issues as well as collect their own employment and unemployment taxes. And you could conceivably go to jail if you were paying the so-called contract worker "under the table."

How can you make yourself bullet-proof to an IRS challenge of contract worker status? It is worth reading the IRS publication yourself if you have any question at all, but here are some common sense criteria:

- . a contract worker typically performs labor outside your studio
- . he is not supervised
- . he uses his own tools and equipment
- . he sets his own hours of work
- . he has other customers for whom he does contract work
- . he bills you for services rendered
- . you issue him an IRS Form 1099 Miscellaneous at year end

I'm not implying that a bona-fide contract worker has to work outside your studio or use his own tools and equipment in every single case, but it's a red flag if he doesn't. If you have any questions regarding the status of your workers, I suggest that you talk it over with your accountant.

Employees

The definition of an employee is much easier: if the worker is not a contract worker, then he/she is an employee. Period. And with employees your business life gets much more complicated. You embark on a journey of discovery into the world of employment and unemployment taxes (both federal and state), workman's compensation insurance, Occupational Health and Safety Act regulations, and a myriad other government agencies that exist to keep you capitalists from taking advantage of your downtrodden employees. Is your restroom handicap accessible? Under the provisions of the Americans with Disabilities

Act you might be required to retrofit yours. At a minimum you are probably going to have to hire a bookkeeper just to fill out all the government forms you get, and to collect and remit the various taxes to the federal and state agencies you'll be reporting to. Thankfully you are getting those tremendous leverage effects on your profitability I mentioned earlier, just so you can pay for all this additional overhead.

Motivating employees

You don't have to worry about motivating real contract workers. If you don't pay them on a piece-rate basis then there's

“...money itself is not the end all or be all -- the warm, fuzzy, beneficial effects of a raise last no more than six weeks, they tell me.”

something wrong with your program in the first place. Employees, on the other hand, require lots of TLC. As a craft studio owner, you should idolize your employees. After all, they aren't *just* employees, they are craftspeople in their own right. I'll let you in on a little secret: treat your workers with dignity and respect, pay them a little more than they could reasonably expect to make by working for others, and keep them apprised of what's happening in your business. It will all come back to you in spades.

You can have the best craft widget designs in the world. You can have the best tools

and materials available. Your marketing program can be the slickest anyone has ever seen. Your banker can be throwing money at you to get your business off the ground. Your office staff can be so efficient that you, personally, never have to come to work. But if you don't have a good work force, you don't have anything. Without a true social compact between you and the folks who do the actual work (one that makes sense to all concerned), the best you can hope for is lackadaisical production and indifferent quality. Try to run a contemporary handcrafts studio on that basis!

Am I being too harsh? I don't think so. And here's another little secret: money itself is not the end all or be all -- the warm, fuzzy, beneficial effects of a raise last no more than six weeks, they tell me. Motivation arises from leadership and fairness. Leadership in the sense that you as the owner/craftperson must be willing and able to jump into the process and get things done as good or better than any employee could, and fairness in the sense that everyone must believe that all are being treated equally. It's okay in Joe Blow's mind that he's only making ten bucks an hour. Just don't run out and buy yourself a Lexus or let him find out that you bumped the pay of your intern, Susie Creamcheese, up to \$20.

Remuneration

Of course money motivates workers. The more they make, the better off they are. But there is such a thing as the utility of money, and at some point another dollar an hour raise just doesn't have the effect it used to. After food, clothing and shelter needs have been met; after you're driving a decent car and you've got plenty of beer money in your pocket; then that extra buck doesn't mean that much. Let's take a quick look at some other dimensions of compensation. Second only to rates of

pay is getting a paid vacation. Everyone wants, needs and thinks they deserve paid time off. After that comes personal days. Are they sick days, mental health days, holidays or what? Are they paid or not? Their actual makeup is a part of your social compact, and the answers depend on where you are on the profitability curve with your particular business.

Further down the list are health benefits. We all want them, but they tend to be very expensive. Who is covered and who pays are overriding concerns. Craft studios tend to be staffed by younger workers, many of whom are single. If you ask a bunch of twenty-something singles whether they prefer a fifty-cent raise or a free HMO card, chances are most would opt for the cash.

Profit sharing programs, retirement plans, and even stock options are other aspects to consider in your overall pay package. However, in the crafts industry a decent wage rate and a basic benefits package will bring you head and shoulders above most of your peers. Dignity, respect and fairness: these help demonstrate a real concern for the well-being of others, and a happy -- or at least content -- workforce accrues many benefits to you, the owner.

CraftSmartsNews

Published bi-monthly or quarterly or whenever we get around to it by CraftSmarts/John Iverson & Associates. All rights reserved. To ensure continued receipt, please let us know that you want to be kept on the mailing list. Subscription to the newsletter is free for now. To contact us for any reason, we can be reached the following ways:

Mail 2229 Paseo de los Chamisos
Santa Fe, NM 87505
Voice 505/424-1261
Cell 505/670-1162
Fax 505/424-1262
E-mail john@jiverson.com
WWW www.jiverson.com

Call for your free initial phone consultation. All business issues welcome. This is your resource -- use it!

Take our survey. . . .

Please take a few minutes to complete the survey questionnaire at the website. The information asked for is generic, and will be held in strict confidence. Knowledge is power, and knowing as much as possible about you, the crafts makers, will help me tailor content as we continue this journey. Results will be shared with all of you. If you do not have Internet access, please request a fax or postal survey form.

A final word about employees:

These comments relate to those of you with a family run craft business. In the late 1970's I met a couple who were ceramists. Their stuff was gorgeous. Their vessels flared out at the top to delicate, petal-shaped rims like a flower. This was absolutely stunning work. I asked the guy how many employees they had. He told me that they'd had to let go all their shop help. Seemed that too many mistakes were being made. No one else seemed to possess the proper hand and eye coordination required, and the work made by the paid labor looked clunky in comparison anyway. He told me that they were down to a mere two employees: a combination cook and cleaning woman, and a combination handyman, errand runner and gardner. By not having to maintain their household themselves, they freed up a huge amount of time to spend productively in their studio creating their work. Sounds like a great plan to me; it worked for them and it might just work for you.

Doing Well By Doing Good

Are you selfless? Do you give back to your community? I'm not talking about buying Shrine Circus tickets or donating to the Fraternal Order of Police just to get this year's decal, or coughing up an auction piece for your kid's school. I'm talking about doing a good deed that *matters*: making a difference within your community. If you do or have done so, please share it with me. This is another way that "stuff" happens -- the good kind.

A final word about the website:

Don't give up on me here. I have it on good report that most of the content is currently available. Once again I apologize. Hopefully you'll feel, as I do, that it has been worth the wait. Remember to leave me suggestions on how to improve it. CraftSmarts is your resource -- just use it!



2229 PASEO DE LOS CHAMISOS
SANTA FE, NM 87505

PRSR STD
US POSTAGE
PAID
SANTA FE, NM
PERMIT # 970