

1099 Contractor vs. Employee: What You **NEED** to Know

Misclassify a worker and it could cost you thousands. Keep scrolling to protect your business.

Why Classification MATTERS

Financial Risk

Misclassification can lead to thousands in fines, back taxes, and penalties from the IRS.

Legal Exposure

Your business could face lawsuits from workers claiming misclassification and denied benefits.

Getting it right protects both your company and your workers.



W-2 **EMPLOYEE** Characteristics



Employer Control

You set their hours, provide tools, and dictate how work gets done.



Tax Withholding

You withhold income taxes, Social Security, and Medicare from paychecks.

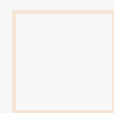


Benefits Package

Typically receives company benefits like health insurance and paid leave.

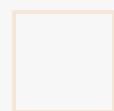


1099 **CONTRACTOR** Characteristics



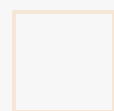
Independence

Controls their own work methods, schedule, and business operations.



Self-Supplied

Uses their own tools, equipment, and workspace to complete tasks.



Tax Responsibility

Handles all their own taxes, receives no withholding, invoices for work.

The **CONTROL** Test

This is the most important factor the IRS looks at:

Behavioral Control


Who decides when, where, and how the work gets done?

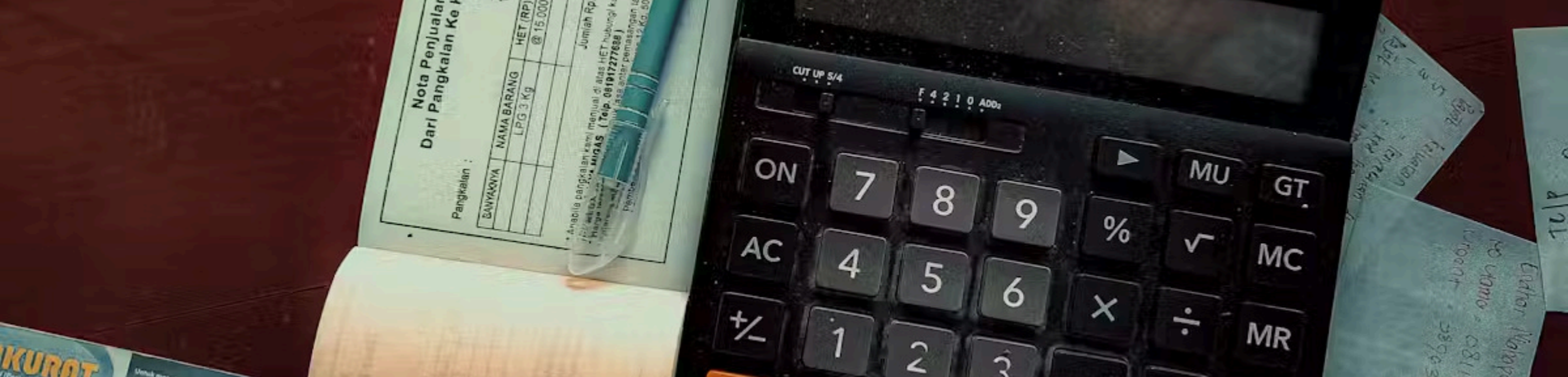
Financial Control

Who owns tools? Are expenses reimbursed? How is payment structured?

Relationship Type

Is there a contract? Are benefits provided? Is the work ongoing?

 Remember: The IRS looks at the entire relationship, not just one factor!



The **TAX** Difference

W-2 Employees

- You withhold income taxes
- You pay half of FICA (7.65%)
- You file W-2 forms annually

1099 Contractors

- No tax withholding
- Contractor pays all FICA (15.3%)
- You file 1099-NEC for payments of \$600+

BENEFITS & Protections

A key difference that impacts your responsibilities:

W-2 Employees Receive:

- Health insurance options
- Retirement plans
- Overtime pay eligibility
- Unemployment benefits
- Workers' compensation

1099 Contractors Get:

None of these employer-provided benefits or protections. They're responsible for their own business operations.



Work **RELATIONSHIP**

Indefinite

Employee Duration

Ongoing work with no specific end date

Project

Contractor Duration

Defined by specific deliverables or timeframe

Employees perform work integral to your core business. Contractors typically handle specialized projects or supplemental tasks.

The **REAL RISKS**

Misclassification consequences can be severe:

Financial Penalties

Back taxes with interest, plus penalties of up to 100% of unpaid taxes

Legal Actions

Companies like Uber, FedEx, and Microsoft have paid millions in settlements for misclassification

Audit Triggers

Worker complaints to the IRS or DOL can trigger comprehensive audits of your entire workforce

Quick Classification CHECKLIST

Ask yourself these questions to stay compliant:

- Do you control how and when work is done? → Likely Employee
- Does the worker use their own tools and serve multiple clients? → Likely Contractor
- Is the work ongoing and central to your business? → Employee
- Is it a short-term project with specific deliverables? → Contractor

Still unsure? Consult with an [Faulkner HR Solutions](#) to protect your business.

Tag a business owner who needs this information! 🖱️