

Tax Strategy – Worker Classification



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Question: Is my worker an employee (W-2) or contractor (1099)?

Answer: Be careful with this one. Many business owners misclassify employees as contractors, and face IRS penalties for not withholding payroll taxes. Visit the IRS website and look at Form SS-8; you'll notice that this determination is very subjective and subject to argument. The primary determinants of employee vs. contractor are 1) control and 2) the relationship between the worker and the company. If the worker does not control (direct) his daily behavior or does not have financial control, he is probably an employee. Similarly, if he provides his services exclusively to the company, he is probably an employee. See your CPA for a detailed review of your situation.



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