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Whether you hire contractors or employees or a mix of both depends on your business needs and resources.Many small businesses start out hiring contractors to help with support tasks and projects as the business grows beyond what a single owner can do but doesnt yet earn revenue to support full-time employment. That can be a smart, lean way to growbut you forfeit the behavioral, financial and relationship control youd have with employees.You might want to hire a contractor when:You have a set project or assignment in mindYou dont have guaranteed ongoing workYou want to benefit from a service providers expertise, rather than provide training, strategy and protocols yourselfThe work doesnt require scheduled hours or a set locationThe work can be performed independently without oversightYou might want to hire an employee when:You have ongoing work for the roleThe worker needs to follow your companys protocols or use your equipmentThe work requires scheduled hours and/or a set locationThe work requires oversight and managementBottom LineThe difference between 1099 vs. W-2 workers can be tricky to parse, but the spirit of the classifications is clear: Contractors are self-employed workers selling you a service while employees work for the benefit of and under the rule of your business.Once you know which kind of worker youre hiring, choosing the proper tax forms and following tax requirements is simple. Contractors fill out a W-9 upon hiring, while employees fill out a W-4. At tax time, you file a 1099 for each contractor and a W-2 for each employee.If the IRS determines a worker has been misclassified, you could be responsible for additional taxes on their pay, as well as unemployment insurance and benefits extended to other employees, such as health insurance and retirement plans. Clarity, before you hire, is also important to find the right kind of worker for the job. Whether you hire contractors or employees or a mix of both depends on your business needs and resources.Many small businesses start out hiring contractors to help with support tasks and projects as the business grows beyond what a single owner can do but doesnt yet earn revenue to support full-time employment. 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Contractors fill out a W-9 upon hiring, while employees fill out a W-4. At tax time, you file a 1099 for each contractor and a W-2 for each employee.If the IRS determines a worker has been misclassified, you could be responsible for additional taxes on their pay, as well as unemployment insurance and benefits extended to other employees, such as health insurance and retirement plans. Clarity, before you hire, is also important to find the right kind of worker for the job. Wednesday September 4th, 2024 Estimated time to read: 7 minutes Compliance Corner Q&AStay compliant at tax time and avoid costly mistakes.Every employer is required to issue their employees a tax form each year. Issuing the correct tax form is crucial in avoiding fines from the IRS. Misclassification of an employee can alter tax withholding, social security, Medicare taxes and impact both the employer and the employees tax fillings. Understanding the difference and noticing how to categorize your workers helps companies stay compliant and avoid costly mistakes. In this episode of Compliance Corner, Casey Walters, isolved Senior HR Business Partner, answers some of the most commonly asked questions about tax form W-2 and 1099.* What is the difference between a 1099 and W-2 form?A W-2 form is issued to employees and details their wages, taxes withheld, and other payroll information for the year. This form is used to report income to the IRS and includes information on federal tax, Social Security, and Medicare taxes. Employers are responsible for withholding these taxes from the employees paycheck.A 1099 form, specifically a 1099-NEC, is issued to independent contractors and freelancers who have been paid $600 or more for their services. Unlike W-2 forms, 1099 forms do not withhold taxes. Contractors are responsible for managing their own tax payments, including self-employment tax. This form reports non-employee compensation to the IRS and helps freelancers and gig workers report their income accurately.What is the difference between form 1099-MISC and form 1099-NEC?Form 1099-MISC is used to report various types of miscellaneous income, such as rent, royalties, and other forms of non-employee compensation that dont fit into other 1099 categories. This form covers a broad range of income types, making it essential for reporting diverse payments made by businesses throughout the tax year.Form 1099-NEC specifically reports non-employee compensation. This form is used to report payments of $600 or more made to independent contractors and freelancers. The IRS separated non-employee compensation into its own form starting in the 2020 tax year to streamline reporting and reduce confusion, making it easier for business owners and the internal revenue service to track this specific type of income.When should an employer use a 1099 form vs. a W-2 form?1099s and W-2s are the tax forms employers use to report wages and taxes withheld for different workers.Employers should use a W-2 form for employees who were hired internally, receive regular wages and employee benefits. These employees have taxes withheld from their paychecks, including federal tax, state income taxes, Social Security, and Medicare taxes. Employers use a W-2 tax form to report an employees wages and payroll taxes withheld, which gets submitted to the Social Security Administration (SSA) and the IRS.1099 workers are also known as self-employed workers or independent contractors or freelancers who are paid $600 or more in a tax year. These workers do not have taxes withheld from their payments; instead, they are responsible for their own tax obligations, including self-employment tax. The 1099 form reports the total non-employee compensation to the IRS and is essential for contractors to file their tax returns accurately.How can employers determine the classification of an employee?Employers can determine the classification of an employee by assessing the type of relationship and the level of control over the worker. The IRS uses three primary categories for this assessment: behavioral control, financial control, and the type of relationship.Behavioral: Does the company control or have the right to control what the worker does and how the worker does their job?Financial: Does the company or payer control the business aspects, like how it pays the worker? Are the workers expenses reimbursed? Who provides the tools and supplies needed to get the job done?Type of relationship: Do you have employee policies or offer employee-type benefits like pension, insurance and vacation pay? Is the work performed a key aspect of the business? Will the relationship continue once the work is done?The type of relationship is determined by evaluating written contracts, employee benefits, and the permanence of the relationship. If an employer provides benefits like insurance, retirement plans, and direct deposit for wages, the worker is more likely to be classified as an employee. On the other hand, if the worker is hired for a specific project or period without ongoing obligations, they are more likely to be classified as an independent contractor. Correctly classifying workers ensures compliance with tax purposes and avoids potential penalties from the IRS. It is also important to remember that each state has rules and regulations around worker classifications. Unfortunately, no one factor can make that determination.Why is it important to prevent misclassification of employees?Preventing misclassification of employees is essential to comply with federal and state tax laws. It is important to know the difference between 1099 independent contractors and W-2 employees for a few reasons, including:Misclassifying an employee as an independent contractor can result in financial penalties from the IRS, as well as back taxes for unpaid FICA taxes and income tax withholding, or an employee misclassification lawsuit against your business.Employee classifications affect how both you and your workers are taxed. You are required to withhold income taxes and pay taxes on the wages you pay to W-2 employees. You do not usually have to withhold or pay taxes on the payments you make to 1099 contractors.Employee classifications determine how much control you have over a workers schedule, payment and other aspects of their job. Independent contractors define when, how and where they work. Employees work according to your schedule and policies.Misclassification also impacts the employees benefits and protections. Employees misclassified as contractors may miss out on unemployment insurance, workers compensation, and other benefits such as health insurance and retirement plans.Ensuring proper classification protects both the employer and the worker, fostering a compliant and fair working environment.What should employers be aware of when hiring a contractor instead of a full-time employee?There are several things employers should take into consideration when deciding whether to add a contractor or a full-time employee to their team.For starters, working with independent contractors allows employers greater leeway in hiring and releasing workers, but employers should be aware of the differences in tax obligations and employment laws. Contractors receive a 1099 form, not a W-2, and are responsible for their own tax payments, including self-employment taxes. Employers do not withhold taxes or provide benefits such as health insurance, retirement plans, or unemployment insurance for contractors. Many employers use independent contractors only as needed for relatively short-term projects.Keep in mind that while this means there is greater flexibility, the coming and going of contractors can also be disruptive to the rest of the workforce. Another thing to be aware of is that employers have less control over contractors. Unlike employees, whom you can closely supervise and monitor, independent contractors have a certain autonomy to decide how best to do the task for which you hired them. What should employers know about the salary and benefit differences for 1099 and W-2 workers?In addition to the differences between contract and full-time employment agreements described above, for full-time employees, employers withhold certain amounts from their W-2 employees paychecks at both the state and federal level to pay taxeseasing the tax burden on their employees.Employers are required to provide certain benefits to their W-2 employees based on various company characteristics. Full-time employees receive a regular salary and benefits such as health insurance, retirement plans, and unemployment insurance. These employees have taxes withheld from their paychecks, including Social Security tax, Medicare tax, and federal and state income taxes. Employers are responsible for paying a portion of these taxes and must file form W-2 to report the employees wages and tax withholdings. For a W-2 employee, the employer pays 7.65% of Medicare and Social Security taxes while the employee pays 7.65%.Independent contractors also do not have access to employer-sponsored health, dental, life and disability insurance plans. Gone is the 401(k) plan with the employer match. The contractor bears full responsibility for finding affordable benefits, which is a formidable challenge for the self-employed. This means going out and buying a disability insurance policy and funding a retirement plan, among many other things.For independent contractors who file a form 1099 at tax-time, the contractor becomes liable to pay the employers share of these taxes, meaning that the full 15.3% comes out of each client payment the contractor receives. This is in addition to the income tax and self-employment tax independent contractors are required to pay. They are paid based on the terms of their contract, employers do not withhold taxes from their payments, and they are responsible for paying their own taxes.What is the difference between a W-2 vs 1099 employee for small businesses?For small businesses, the key difference between W-2 and 1099 employees lies in their employment status and tax obligations. W-2 employees are considered full-time or part-time workers who receive regular wages and benefits. Employers withhold taxes from their paychecks, including federal income tax, Social Security tax, and Medicare tax. Employers also contribute to these taxes and must provide benefits such as unemployment insurance.1099 employees, or independent contractors, work on a contract basis and are not on the regular payroll. They are responsible for their own tax payments and do not receive benefits from the employer. Small businesses issue a 1099-NEC form to report non-employee compensation to the IRS. This classification can save businesses on payroll taxes and benefits, but it is crucial to correctly classify workers to avoid penalties and ensure compliance with tax laws.How should W-2 and 1099 forms be delivered to employees?W-2 forms must be delivered to employees by January 31st of each year. Employers can provide these forms in paper format, mailed to the employees address on file, or electronically through a secure online portal. For electronic delivery, employees must consent to receive their forms this way, and employers must ensure the security and confidentiality of the data.1099 forms should also be delivered to contractors by January 31st. Similar to W-2 forms, 1099 forms can be mailed or delivered electronically. Electronic delivery requires the contractors consent and must comply with IRS guidelines to ensure the privacy and accuracy of the information returns. Employers should use a reliable method to track the delivery of these forms to ensure compliance and proper documentation.What are the benefits of sending W-2 forms electronically?Sending W-2 forms electronically offers several benefits for both employers and employees. For employers, electronic delivery reduces administrative costs associated with printing and mailing paper forms. It also minimizes the risk of forms being lost or delayed in the mail, ensuring timely delivery and compliance with IRS deadlines. Additionally, electronic delivery supports e-filing, streamlining the submission of information returns to the IRS.For employees, receiving W-2 forms electronically provides quicker access to their tax information, which can be particularly useful during tax season. Employees can easily retrieve their W-2 income data, including identification numbers, through a secure online portal. This convenience aids in managing business expenses and preparing for tax filings. Electronic forms can also be imported into tax preparation software, simplifying the process of filing an IRS form and potentially expediting a tax refund. For those wondering how to get a W-2 online, employers typically provide access instructions, ensuring employees can access their tax statements efficiently. About Casey: Casey is part of isolveds People Services team and has more than ten years of experience in HR. His areas of expertise include employee relations, performance management, benefits management and safety. Throughout his career, Casey has worked within the manufacturing, marketing, medical, banking and finance industries. * This blog is not legal advice. Please seek proper legal advice. Need assistance completing your critical HR tasks? Learn more about HR Services and how isolved can help. Whether you hire contractors or employees or a mix of both depends on your business needs and resources.Many small businesses start out hiring contractors to help with support tasks and projects as the business grows beyond what a single owner can do but doesnt yet earn revenue to support full-time employment. That can be a smart, lean way to growbut you forfeit the behavioral, financial and relationship control youd have with employees.You might want to hire a contractor when:You have a set project or assignment in mindYou dont have guaranteed ongoing workYou want to benefit from a service providers expertise, rather than provide training, strategy and protocols yourselfThe work doesnt require scheduled hours or a set locationThe work can be performed independently without oversightYou might want to hire an employee when:You have ongoing work for the roleThe worker needs to follow your companys protocols or use your equipmentThe work requires scheduled hours and/or a set locationThe work requires oversight and managementBottom LineThe difference between 1099 vs. W-2 workers can be tricky to parse, but the spirit of the classifications is clear: Contractors are self-employed workers selling you a service while employees work for the benefit of and under the rule of your business.Once you know which kind of worker youre hiring, choosing the proper tax forms and following tax requirements is simple. Contractors fill out a W-9 upon hiring, while employees fill out a W-4. At tax time, you file a 1099 for each contractor and a W-2 for each employee.If the IRS determines a worker has been misclassified, you could be responsible for additional taxes on their pay, as well as unemployment insurance and benefits extended to other employees, such as health insurance and retirement plans. Clarity, before you hire, is also important to find the right kind of worker for the job. The IRS has different rules for reporting hires of U.S. employees and contractors, and different forms for each: the W-2 for employees, and the 1099 for contractors.In this article, well discuss the differences between the two forms, how to avoid penalties when filing them, and which employer obligations and worker rights are associated with each.What is the W-2, and when is it used?Form W-2 is a tax document filed with the IRS that reports the income of regular employees (also called W-2 workers). As of January 2025, there were 162 million such employees in the United States.The W-2 form for regular employees. Source: IRSEmployer responsibilities toward W-2 workersWithholding taxes (federal, state, Social Security, and Medicare)Paying benefits (Paid vacations, health insurance, 401(k))Determining the employee's schedule and responsibilitiesExampleLisa works for a marketing company. Her pre-tax salary is $5,000 per month. Here are the taxes her employer will withhold and pay:Taxes for W-2 workersWhat is Form 1099, and when is it needed?Form 1099 is a tax document that employers use to report non-traditional employment benefits. There are 22 versions of the form, but the two most important ones for businesses are 1099-MISC and 1099-NEC.1099-MISC covers miscellaneous income, including rent, legal fees, prizes, and awards. Prior to 2020, the 1099-MISC also covered payments to freelancers and independent contractors, but now the 1099-NEC is used for that purpose. (The creation of a separate form was due to the rapid growth of freelancing: its predicted that by 2027, freelancers will account for 50.9% of the total labor force in the United States.)1099-NEC is used to report payments to contractors, freelancers, and self-employed people who pay their own taxes and dont receive benefits. It needs to be filed if the 1099 worker earned $600 or more for the year.The 1099-NEC form for freelancers and contractors. Source: IRSExampleIn 2024, an American software company hired two freelancers. Anna from Poland worked from January through December and was paid $75,000. Juma from Kenya was hired for a short project and received $400.Annas annual income exceeded $600, while Jumas did not. Therefore, the company had to complete Form 1099-NEC for Anna and file it with the IRS by January 31, 2025. (Contractors country of residence does not affect reporting.)How taxes work for 1099 workersSometimes a 1099-NEC isnt required see page 3 of the IRSs instructions.{{_highlight-module-orange}}1099-NEC vs. W-2: ComparisonHeres what the forms have in common:The filing deadline is January 31.Mandatory electronic filing if an employer files more than 10 returns from this list (which includes both the 1099 and W-2).Retention requirement for copies: 4 years.And heres how the forms differ:Risks of misclassificationIf misclassification is proven, businesses face fines and reputational losses. The misclassification of workers as contractors deprives workers of their rights and results in lost tax income of billions of dollars for the government. In the U.S. construction industry alone, up to 2.1 million workers are misclassified or paid unreported wages.Risks for employersFines and criminal penaltiesIf the IRS finds an intentional misclassification, the employer will face penalties of up to 20% of all wages paid, plus 100% of FICA taxes. There can also be fines of up to $1,000 per misclassified employee or even a year in jail for the person responsible for withholding taxes.Reputational risksAn employers brand affects how easily it attracts talent, as well as its turnover. Employers understand this: according to Speakers Corner, 88% of executives consider reputation management more important than employee training.Misclassification can affect a businesss reputation, which can lead to decreased employee morale, layoffs, lost profits, weaker corporate culture, and lower investment attractiveness.Real cases of worker misclassificationIn 2023, Uber and Lyft settled a wage theft lawsuit for $328 million.In 2024, Arise misclassified at least 250 workers and was ordered to pay $2 million.In January 2025, The Party Staff, a hospitality staffing company, filed a lawsuit alleging that three competitors were illegally misclassifying workers as contractors.{{_highlight-module-grey}}How to determine if a worker is an employee or contractorIn U.S. federal law, worker classification is based on the Economic Reality Test established by the FLSA, which looks at six factors.To determine a worker's status, ask questions about each criterion and check the answers against the table.Its important to remember that job titles, payment methods, work schedules, and so on do not determine worker status. What matters, at least under federal law, are the factors above though individual states also have their own regulations.If, after applying this test, you still arent sure whether the worker is an employee or a contractor, you can file Form SS-8 with the IRS to get an official ruling.W-2 vs. 1099: what to considerThe right choice between a W-2 and 1099 depends on the type of relationship between the company and the person, and misclassification can result in fines and reputational damage.To avoid risks, consult with professionals. Mellow helps companies work with independent contractors around the world, reducing risks and simplifying processes. Book a free demo and learn how to optimize your hiring today. Learn everything about Form I-9, including verification steps, compliance requirements, and legal implications for employers and employees. Comprehensive guide to navigating state-by-state E-Verify mandates. Stay compliant and streamline your hiring process with state-specific requirements. When holiday hiring ramps up, compliance mistakes become more common. Learn how to avoid Form I-9 mistakes with this guide. Preface: Strength lies in differences, not in similarities. Steven CoveyUnderstanding the Difference Between W-2 and 1099 EarningsIf you earn an income, understanding how you are classified as a worker is crucial, as it affects your tax responsibilities and financial planning. The two most common classifications in the United States are W-2 and 1099, both of which come with their own rules and implications. Heres a breakdown of what each means, when each applies, and examples to help you navigate this essential topic.W-2 Earnings: The Employee ModelDefinition: W-2 earnings are received by individuals who are classified as employees. If you work for a company and your taxes are withheld from your paycheck, your employer will issue you a W-2 form at the end of the year. This form reports your annual wages and the amount of taxes withheld.Tax Implications: As a W-2 employee, your employer is responsible for withholding income tax, Social Security, and Medicare taxes from your earnings and submitting these payments to the IRS on your behalf. Additionally, your employer may contribute to benefits such as health insurance, retirement plans, and unemployment insurance.Example: Imagine you work as a marketing coordinator for a company. You receive a consistent salary or hourly wage, and your employer withholds taxes from your paychecks. At the end of the year, you receive a W-2 form to file your taxes. Because you are an employee, you may also enjoy perks like paid time off, health insurance, and a 401(k) match.When Applicable: W-2 status typically applies when your employer has significant control over your work. This includes dictating your work hours, providing the tools you use, and overseeing how tasks are completed. If you work under a structured schedule and are subject to company policies, you are likely a W-2 employee.1099 Earnings: The Independent Contractor ModelDefinition: 1099 earnings apply to independent contractors or self-employed individuals who offer services to clients or businesses. Rather than having taxes withheld, 1099 workers receive their full earnings and are responsible for managing their own tax payments. Companies report your income on a 1099 form if you earn $600 or more in a year.Tax Implications: As a 1099 worker, you must pay self-employment taxes, which include both the employer and employee portions of Social Security and Medicare. This can come as a shock if you are not prepared. Additionally, you are responsible for making quarterly estimated tax payments to the IRS and managing business expenses and deductions.Example: Say you are a freelance graphic designer. You complete various projects for different clients, and each client pays you without withholding taxes. At the end of the year, you receive 1099 forms from clients who paid you over $600. Because you are self-employed, you need to account for business expenses, such as design software or marketing costs, to reduce your taxable income.When Applicable: 1099 status applies when a worker has greater autonomy in their role. Independent contractors typically decide when and how to work, supply their own tools or materials, and are paid per project or contract. If you set your own schedule and work with minimal supervision, you are likely a 1099 contractor.Key DifferencesControl and Autonomy: The level of control a business has over your work often determines your classification. W-2 employees follow a companys guidelines, while 1099 workers maintain independence.Tax Responsibilities: W-2 employees have taxes withheld and may receive employee benefits, whereas 1099 workers handle their own tax payments and can claim business expenses.Work Benefits: W-2 employees might receive benefits like health insurance, paid leave, and retirement contributions. In contrast, 1099 workers do not receive these perks but have more freedom to work with multiple clients.Examples of EachW-2 Example: A full-time software engineer at a tech company works 9-5 and has access to health insurance, stock options, and a company laptop. The company manages tax withholdings and reports earnings on a W-2 form.1099 Example: A photographer who is hired to shoot weddings and events sets their own rates, works on weekends, and claims deductions for camera gear and travel expenses. They receive 1099 forms from their clients and are responsible for paying self-employment taxes.Why It MattersUnderstanding whether you are a W-2 employee or a 1099 contractor is critical for tax planning and financial stability. Misclassification can lead to tax complications and even penalties. If youre unsure of your status, consult a tax professional or review the IRS guidelines to clarify your classification.Being informed about your earnings type empowers you to manage your taxes properly, maximize deductions, and make the most of your incomewhether you enjoy the benefits of employment or the freedom of self-employment. Navigating the tax landscape can be a daunting task, especially when it comes to understanding the differences between the various tax forms. Two of the most common forms individuals encounter are the 1099 and W-2 forms. While both serve essential purposes in the tax filing process, its crucial to grasp the nuances between these documents to help ensure accurate reporting and compliance. In this extensive guide, well delve into the key distinctions between 1099 and W-2 forms, explore the implications for independent contractors and employees, and provide practical insights to help you navigate the tax filing process with confidence. A 1099 form is a tax document used to report various types of income other than wages, salaries, and tips (which are reported on a W-2 form). This form is typically issued to independent contractors, freelancers, and individuals who have received certain types of payments throughout the year, such as rent, interest, dividends, or self-employment income. The 1099 form comes in several variations, each designed to capture a specific type of income. The most common 1099 forms include: 1099-MISC: This form reports miscellaneous income, such as payments for services performed by independent contractors, rent, royalties, and other non-employee compensation. 1099-INT: This form reports interest income earned from banks, credit unions, and other financial institutions. 1099-DIV: This form reports dividend income earned from investments. 1099-NEC: This form reports non-employee compensation, such as payments made to independent contractors for services. A W-2 form, also known as the Wage and Tax Statement, is a tax document that employers must provide to their employees at the end of the year. This form reports the total amount of wages, salaries, and tips earned by the employee, as well as the amount of taxes withheld from their paychecks throughout the year. The W-2 form is crucial for employees, as it provides the information they need to accurately file their personal income tax returns. Employers are responsible for issuing W-2 forms to their employees and submitting copies to the Internal Revenue Service (IRS) and the appropriate state tax agencies. The primary distinction between 1099 and W-2 forms lies in the nature of the employment relationship. Here are the key differences: Employment Status: 1099 forms are typically issued to independent contractors or self-employed individuals, while W-2 forms are issued to employees. Tax Withholding: Employers are responsible for withholding federal, state, and Social Security taxes from the paychecks of their employees. Independent contractors, on the other hand, are responsible for paying their own taxes, including self-employment tax. Reporting Requirements: Employers must report the total amount of wages, tips, and other compensation paid to their employees on the W-2 form. Independent contractors must report their income, expenses, and self-employment tax on their individual tax returns. Deductible Expenses: Employees generally have fewer deductible expenses than independent contractors. Independent contractors can deduct business-related expenses, such as mileage, office supplies, and professional development, to reduce their taxable income. Health Insurance and Benefits: Employees may be eligible for employer-sponsored health insurance and other benefits, such as retirement plans and paid time off. Independent contractors are responsible for securing their own health insurance and benefits. For individuals working as independent contractors, the 1099 form carries several important implications: Self-Employment Tax: Independent contractors are responsible for paying self-employment tax, which covers their Social Security and Medicare contributions. This tax is typically higher than the payroll taxes withheld from employees paychecks. Estimated Tax Payments: Independent contractors must make quarterly estimated tax payments to the IRS to cover their income taxes and self-employment tax. Failing to make these payments can result in penalties and interest. Deductible Expenses: As mentioned earlier, independent contractors have more opportunities to deduct business-related expenses, which can help reduce their taxable income. Its essential to keep meticulous records of all eligible expenses. Retirement Planning: Since independent contractors do not have access to employer-sponsored retirement plans, they must take a more proactive approach to saving for their retirement, such as contributing to a SEP IRA or Solo 401(k). For individuals working as employees, the W-2 form has the following implications: Tax Withholding: Employers are responsible for withholding federal, state, and Social Security taxes from their employees paychecks. This can provide a more consistent and predictable cash flow throughout the year. Health Insurance and Benefits: Employees may be eligible for employer-sponsored health insurance, retirement plans, and other benefits, which can provide additional financial security and peace of mind. Simplified Tax Filing: Employees generally have a more straightforward tax filing process, as their income and tax withholdings are already reported on the W-2 form. Limited Deductible Expenses: Employees have fewer opportunities to deduct business-related expenses, as most of their work-related expenses are considered personal or unreimbursed. Regardless of whether you receive a 1099 or W-2 form, its crucial to understand the implications and properly report your income to the IRS. Here are some tips to help you navigate the tax filing process: Organize Your Records: Maintain meticulous records of your income, expenses, and any tax-related documents throughout the year. This will make the tax filing process much easier. Consult a Tax Professional: If you have a complex tax situation or are unsure about how to report your income, consider consulting a tax professional, such as a certified public accountant (CPA) or enrolled agent. They can provide valuable guidance and ensure you are compliant with all tax regulations. Stay Up-to-Date with Tax Laws: Tax laws and regulations can change from year to year, so its important to stay informed about any updates that may affect your tax filing. Check the IRS website or consult a tax professional for the latest information. File on Time: Ensure that you file your tax return and any necessary forms, such as the 1099 or W-2, by the applicable deadlines to avoid penalties and interest. Understanding the differences between 1099 and W-2 forms is crucial for individuals to navigate the tax filing process successfully. By recognizing the implications of each form and taking proactive steps to manage your tax obligations, you can ensure compliance, maximize deductions, and minimize the stress associated with tax season. Whether you are an independent contractor or an employee, staying informed and seeking professional guidance can help you make informed decisions and achieve the best possible tax outcome. By embracing the complexities of the tax landscape, you can take control of your financial future and make the most of the tax-related opportunities available to you. Financial planning and Investment advisory services offered through Diversified, LLC. Securities offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC. Headquartered at80 State Street, Albany, NY 12207. Purshe Kaplan Sterling Investments and Diversified, LLC are not affiliated companies.Diversified, LLC does not provide tax advice and should not be relied upon for purposes of filing taxes, estimating tax liabilities or avoiding any tax or penalty imposed by law. The information provided by Diversified, LLC should not be a substitute for consulting a qualified tax advisor, accountant, or other professional concerning the application of tax law or an individual tax situation.Nothing provided on this site constitutes tax advice. Individuals should seek the advice of their own tax advisor for specific information regarding tax consequences of investments. Investments in securities entail risk and are not suitable for all investors. This site is not a recommendation nor an offer to sell (or solicitation of an offer to buy) securities in the United States or in any other jurisdiction. 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That can be a smart, lean way to growbut you forfeit the behavioral, financial and relationship control youd have with employees.You might want to hire a contractor when:You have a set project or assignment in mindYou dont have guaranteed ongoing workYou want to benefit from a service providers expertise, rather than provide training, strategy and protocols yourselfThe work doesnt require scheduled hours or a set locationThe work can be performed independently without oversightYou might want to hire an employee when:You have ongoing work for the roleThe worker needs to follow your companys protocols or use your equipmentThe work requires scheduled hours and/or a set locationThe work requires oversight and managementBottom LineThe difference between 1099 vs. W-2 workers can be tricky to parse, but the spirit of the classifications is clear: Contractors are self-employed workers selling you a service while employees work for the benefit of and under the rule of your business.Once you know which kind of worker youre hiring, choosing the proper tax forms and following tax requirements is simple. Contractors fill out a W-9 upon hiring, while employees fill out a W-4. At tax time, you file a 1099 for each contractor and a W-2 for each employee.If the IRS determines a worker has been misclassified, you could be responsible for additional taxes on their pay, as well as unemployment insurance and benefits extended to other employees, such as health insurance and retirement plans. Clarity, before you hire, is also important to find the right kind of worker for the job. When hiring employees, there are two types of tax forms you will be dealing with, 1099s and W-2s. A 1099 form used to report payments when you hire an independent contractor and a W-2 form is used for employees whose payroll taxes are withheld from their earnings. Lets dive into the difference between the two. 1099 vs. W-2 Workers The difference between 1099 and W-2 workers matters when it comes to taxes and the standards set by the IRS. Employees (W-2 workers) tend to benefit from perks, such as benefits packages, paid leave and a fixed income. While independent contractors (1099 workers) usually need to pay for their own health coverage and retirement planning. What is a W-2? The W-2 tax form, also referred to as the Wage and Tax Statement, is sent to every employee who works for your business at the beginning of the year. A W-2 informs your employees about their withholding over the course of the year and itemizes all their deductions for tax purposes. An employee uses the information to determine if theyre entitled to a tax refund for overpayment or if they still owe the IRS money. What to Know About W-2s A W-2, often confused with a W-4 (the document employees need to complete when theyre first hired or when they want to change their withholding amounts) is required If youve paid an employee more than $600 over the past year. You are required to complete and send this document to all employees by January 31st. The point of a W-2 is to report important information to the employee, federal government and the state revenue service including: Total income subject to taxation: This is the employees wages for the year after pretax deductions. This is what the IRS uses to determine the employees tax bracket and total taxes owed on their income. FICA and Medicare withholding: Social Security and Medicare arent technically taxes since they are payments into services employees receive later in life. Theyre withheld separately from federal and state taxes based on each employees taxable income. Federal tax withholding: This is the amount of money a business withholds from an employees pay for the purpose of paying their federal taxes. State tax withholding: If an employer has employees who reside in a state that charges an income tax, state taxes are withheld in a similar fashion to federal tax withholding. Local tax withholding: In rare cases, employees may reside in a city that enforces a local income tax. If this is the case, taxes might be withheld from an employees check for local taxes. As an employer, you should send as many copies of W-2 forms as needed to file taxes with the federal government as well as state and local governments. This can be done in hard copy and made available in digital form. An additional copy should be kept for your own records, with a copy of the W-2 filed with the IRS and a W-3 to remain compliant with federal income tax law. Required Information for W-2s There are three pieces of information you need to provide a W-2, which should have already been provided when the employee filled out their W-4: Employee name: If an employee has recently married or filed for a change of legal name, this needs to be updated. Employee address: In cases where an employee has had a change of residence, you need to confirm where to send the W-2. Social Security number: Its important to confirm that the Social Security number you have on record is correct. What is a 1099? A 1099 reports an independent contractors pay to the IRS while giving that worker a record of their wages, so they can file and pay their taxes. Independent Contractor Misclassification To help prevent financial penalties and lawsuits, you need to make sure you are classifying workers correctly. Employee misclassification happens when workers are mislabeled as independent contractors rather than employees. The IRS looks at three categories to determine whether you hired an employee vs. an independent contractor: Behavioral: Do you control what the worker does or how they do their job? Financial: Do you control how the worker is paid or whether expenses are reimbursed? Type of relationship: Did you hire the employee using a written contract or are you offering employee-type benefits (i.e., insurance, vacation, 401(k), etc.)? Is the relationship permanent or short-term? What to Know About 1099s There are numerous types of 1099s that report income for different purposes, but what all 1099s have in common is that theyre statements of income made for the year from your company. Businesses are required to report all sources of income that individuals receive over $600 for the year. 1099s can be Used to Report the Following Money paid for contracted services Sales commissions Payments made to freelancers Attorney fees more than $600 Rent or lease payments Payments made to accountants who are not considered employees Pension payments Other forms of compensation that can be considered income Types of 1099 Forms There are numerous types of 1099 forms, but the most common forms are the 1099-NEC and the 1099-MISC. Form 1099-NEC is used to report income for independent contractors and form 1099-MISC is used for miscellaneous compensation. Tax Withholding for 1099 Workers Along with sending a copy of the 1099 to your contractor or freelancer, the IRS requires businesses to submit a copy of an independent contractors 1099 to the IRS, Social Security Administration and state and local tax revenue services. Like with W-2s, these are due by January 31st each year. The upside of hiring independent contractors is that businesses arent required to withhold taxes. However, should a contractor request that a business withhold tax payments, the form includes boxes to indicate tax withholding. In most instances, the number in this box will be $0.00 because its extremely rare for an employer to withhold tax for contracted work. Now that you know the key difference between W-2 and 1099 tax reporting, you can properly classify your workers. There are penalties and legal challenges that can be brought against businesses that dont classify workers correctly and meet income reporting requirements. isolved offers payroll and tax solutions to help your business avoid any penalties or legal issues.Almost any time you pay a worker, it creates an obligation to track their compensation for tax purposes. Your employees receive a Form W-2 from you at the end of the year, and youll need to prepare Form 1099 for any independent contractors or freelancers you work with. But, how do you know which one to use? Lets review the differences between W2s and 1099 forms, what they report, and when you need to use them.While the thought of having to file an IRS-Form W-2 might feel a little overwhelming, its usually a straightforward process. Also known as a Wage and Tax statement form, you simply use it to report the income an employee earnsandthe payroll taxes withheld from their compensation for the year.You may want to jot this note down: anyone you employ needs to receive a W-2 if theyve earned more than $600 in a calendar year, or if they have had any taxes withheld from payments, requires a W-2. Theres no wiggle room: it doesnt matter if they worked for one single dayor if they are a family member. If the employee is full or part-time and paid more than $600, they must receive a W-2 form. Dont forgetEmployers must provide a W-2 to their employees by January 31 of the following yearIn addition, employers need to file a copy of all employee W-2s with the IRS and the Social Security AdministrationAlso, mark your calendar as employers must file all W-2 information with both federal agencies mentioned above by January 31 of the following year,butcan request a 30-day extension if neededThere is no shortage of 1099 forms to keep track of, but one of the most commonly used by employers is the 1099-NEC, which stands for non-employee compensation. Like the W-2, 1099-NEC reports earned wages, but withholding such as medicare and social security are not. That is because 1099s usually go to self-employed individuals such as contractors, freelancers, or gig workers. They are generally responsible for paying self-employment tax on their own. Keep in mind: if you do pay a contractor more than $600 in a calendar year, you must complete a 1099-NEC. We should point out there are times a 1099-MISC form needs to be completed for any non-employee compensation. These could be items used for rents, prizes, awards, royalties, or other income payments, such as medical and healthcare. Theres a laundry list of them on theIRSwebsite.If you frequently hire freelancers and independent contractors for projects, you need to provide them with a 1099 at years end. It might be seasonal help, freelance consultant or someone you just may not keep around forever. For example, lets say you hire Danny Designer to create a brochure for your company, he would be considered an independent contractor. Danny should receive a 1099-NEC, provided his compensation is more than $600.00. Dont forgetEmployers need to provide a completed 1099 to the contractor who received payment and file the 1099 with the IRSBoth deadlines are January 31 of the following yearWhen it comes to employees and contractors, the IRS has strict guidelines that take a long look at your working relationship. Unfortunately, theres no special formula to determine the designation, but they do provide some guidance. Lets take a peek at three categories they point out. Behavioral Control.According to IRS rules, if an employer has control over an employees work performance, when and where they must work, provide detailed instructions on how to complete the work, or provide ongoing training, the person in question is an employee. Some roles this could cover include a director of information technology or a customer service professional. On the other hand, if workers are free to complete a job on their own schedule, do not receive specific training, and accept projects on a case-by-case basis, they are contractors. Many people could fit the bill, such as freelance writers, consultants, or designers. Financial Control. If you provide equipment or supplies for an individual to use or they receive a regular paycheck for a standard period of time, the person is an employee. Contractors typically have their own equipment and resources to complete a job, such as computers and software. If the person in question offers similar services to other businesses, which they also provide you, they would be considered a contractor. Working Relationship.Employees are eligible for company-paid benefits such as sick time, health insurance, and vacation pay, while contractors are not. The length of a relationship established can also help answer this question, with an indefinite relationship typically pointing to employee status. Keep learningAs a small business owner, we know you have a lot on your plate. Remember that both W-2s and 1099 employees can be perfectly acceptable options just be careful as misclassifying an employee as a contractor because it can result in costly fines. Not to worry: We break down thedifferences between W-2 employees and contractorsto help you make sense of it all.

2018 w-2/1099 form. What is a w-2/1099 form.