

Employees vs. Contractors - What's The Difference?

Whether a person is an independent contractor or an employee generally depends on the amount of control exercised by the employer over the work being done. Dictating how a job is to be done or limiting the actions of the worker may establish an employer-employee relationship.

An independent contractor:

- Operates under a business name
- Has his/her own employees
- Maintains a separate business checking account
- Advertises his/her business' services
- Invoices for work done
- Has more than one client
- Has own tools and sets own hours
- Keeps business records

An employee:

- Performs duties dictated or controlled by others
- Is given training for work to be done
- Works for only one employer

The Internal Revenue Service relies on the facts in each case. It does not recognize the validity of any written agreement between the parties. Anyone can get a ruling from the IRS by completing Form SS-8.

For most small businesses, independent contractors should not be considered as substitutes for regular employees. Government agencies generally find that people in the work force are legally employees for tax purposes; the cost of being wrong, remitting unpaid payroll taxes, interest, and penalties can be very high.