

Employee vs. Contractor

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The Internal Revenue Service provides guidance to small businesses as it pertains to correctly applying the rules for classifying a worker as an **employee** or an **independent contractor**.

Worker classification is extremely important because it determines if an employer must withhold income taxes and pay Social Security, Medicare taxes and unemployment tax on wages paid to an employee. Businesses normally do not have to withhold or pay any taxes on payments made to independent contractors. The earnings of a person working as an independent contractor are subject to self-employment tax instead.

The general rule of thumb is that an individual is an **independent contractor** if the payer has the right to control or direct **only the result of the work, *not what will be done and how it will be done.***

Federal Guidance

The IRS does provide guidelines for determining whether to classify a worker as an independent contractor or an employee. You can view more details about this on the IRS website:

<https://www.irs.gov/newsroom/employee-or-independent-contractor-know-the-rules>

For situations where you are unable to determine the classification of a worker or you require assistance, the IRS has provided **Form SS-8** where you can request a “worker status” determination.
