



Do I Hire an Employee or 1099 Contractor?

Hiring Employees

An employee is someone who works in the service of someone else under an implied contract of hire where the employer has the right to control how the employee does the work. Hiring an employee means complete control of that person's work, training the person to work to your standards, and having the person work only for you.

Employees, though, come with a lot of laws and regulations as the state and federal governments regulate salaries, overtime, and work rules.

You have to also follow the payroll tax requirements, as well as paying half the FICA taxes, like Social Security and Medicare. You also have unemployment and worker's compensation insurance to take care of.

The advantage of an employee

- can work for you for 30 or more hours a week and have a long-term commitment to your business
- Employees feel proud of their position in the company
- They want the security of a work they can call their second home and the long-term job, while feeling part of the group
- The hourly wage of a full-time employee is less because there is job security. If you were to hire a freelancer, you can expect to pay more for their services
- You don't have to worry about an increase in work because you have reliable workers, as freelancers can be booked if you need them
- You don't have to do everything in your business and can assign different people assignments, which frees up time for you to do other things.

There are also disadvantages to hiring employees:

- Most full-time employees expect benefits, like vacation time and health care
- Pay has to be done consistently, even if the business has a period where it's not growing
- You have to have a payroll paperwork, which is legally required
- You have to cover the employees training and licensing for work
- You become less involved in the day-to-day business of your company and gain people management skills as your business grows

Hiring Independent Contractors

The positive and negative of hiring independent contractors is the opposite of that for employees. You don't have a lot of tax responsibilities for a contractor. You report the amount paid to the contractor on a 1099-MISC, and you don't have to withhold pay for FICA taxes.

The advantages of hiring independent contractors include:

- Saving on benefits and a salary as you are not required to pay these to a contractor, even if the pay per hour can be higher than an employee
- A 1099 worker can typically save upwards of 40% on labor costs
- You have a choice to work with the contractor if you want to or not, while it's not easy to fire an employee
- You can hire a specialized person for a particular task because they often have years of experience already
- Contractors have to figure out their own work permits and licenses
- There are no health benefits for contractors, which can save you money



EMPLOYEE VS 1099

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