

EMPLOYEE V/S INDEPENDENT CONTRACTOR

| Considerations | Employee | Independent Contractor |
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| IRS Definition | Anyone who performs a service where employer controls how, where, and when work is performed | Has right to control or direct the result of his or her work & subject to self-employment tax (Does not direct how or what work will be done) |
| Required Tax Forms | Form W-4 Form W-2 | Form W-9 Form 1099-MISC |
| Required Tax Payments | <p>Employer</p> <ul style="list-style-type: none"> *Quarterly Payments *Unemployment Tax (FUTA) *Social Security Tax (FICA) (7.65%) *Medicare Tax (FICA) *Deducts Federal & State Tax <p>Employee</p> <ul style="list-style-type: none"> Federal & State Payroll Tax Deductions Unemployment Tax (FUTA) Social Security Tax (FICA) Medicare Tax (FICA) Annual Tax Filing / Payments (1040 EZ/1040) Easier Tax Filing (No Need to Itemize Deductions) | <p>Employer</p> <ul style="list-style-type: none"> *No Tax Payments on Behalf of IC, Avoids State Obligations *Does not Pay FUTA *Does not Pay Social Security Tax (FICA) *Does not Pay Medicare Tax (FICA) *Does not deduct Federal & State Tax <p>Independent Contractor</p> <ul style="list-style-type: none"> *Pays Quarterly Tax Payments or Large Annual Tax Bill (State & Federal) *Does Not Pay into Unemployment *Pays Employer & Employee FICA (15.3% - Social Sec. 12.4%, Medicare 2.9%) *May Deduct Business Expenses (May pay less taxes than employee due to this) *May Qualify for 20% Deduction on Taxable Income (QBI) if LLC or S-Corporation *More Difficult Tax Filing (May Require CPA) |
| IRS Advantage | Easier Audit & Collection from 1 Employer More Money is Collected from Employees than IC's | <p>IC's are More Difficult to Audit & Collect From for IRS</p> <p>For Employer: Misclassification</p> <ul style="list-style-type: none"> *Severe Tax Consequences *Could be Liable for All Back Taxes *Could owe Penalties <p>For Independent Contractor:</p> <ul style="list-style-type: none"> *More Likely to Default on Owed Taxes *More Likely to be Audited by State & Federal *Tax Payments Account for Higher Pay, Often Masking Low Pay *May Bring Claims against employer to recover benefits & wages |
| Wages | <p>Typically Lower than IC</p> <ul style="list-style-type: none"> May Receive Salary & Bonuses Pay is Based on Hours Worked Employees Qualify for OverTime Pay Employees Qualify for Sick Time Pay Employees Receive Detailed Pay Stubs/W-2 Employees have Set IRA Contribution Limits (\$6,000 Anually, \$7,000 over age 50) Minimum Wage is Required Regular Income (At Least Minimum Wage) Progressive Discipline & Warnings Prior to Termination | <p>Typically Higher to Account for Tax Payments</p> <ul style="list-style-type: none"> Typically No Salary or Bonuses Offered Pay is Typically Project-Based Flat Fees Do Not Qualify for OverTime Pay Do Not Qualify for Sick Time Pay Do Not Receive Detailed Pay Stubs (Difficulty Gauging Net Pay) SEP/IRA plans Limits (25% of Compensation or \$56,000.00 Annually) IC May Incur Profits or Loss Typically Irregular Income Income May Be Eliminated with No Warning |

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| General Benefits | Employers May Obtain Group Rates for Insurance Employers are Required to Provide Unpaid Time Off Unpaid Vacation Time Unpaid Sick Time Unpaid Family & Medical Leave Unpaid Jury Duty Time Unpaid Bereavement Leave Employers Must Accommodate Disabilities Employer Must follow EEOC Rules on Discrimination Employer is Required to pay OverTime 1.5x over 40 Hours Employer is Required to pay at least Minimum Wage/ Hrs. Worked Employers May be Required to Provide Breaks / rest Periods Employers Pay Average Cost of Benefits (\$11.00/hour) Employees May Receive Fringe Benefits & Perks Employees Have the Right to Form / Join a Union Employees May Receive Expense Reimbursements Employees Receive Discount on Benefits as a Group Employees May be Provided Benefits Health, Vision, Dental Life, 401K with Matching Short/Long Term Disability Employees Receive Job Training Employees May Receive Paid Time Off (PTO) Paid Vacation (1-5 Weeks Annually) Paid Family & Medical Leave Paid Sick Time Employees may Receive Paid Holiday Time Off Employees may Receive 1.5x or 2x Holiday Pay Employees May Receive Unemployment Ins. Claims Employees May Receive Worker's Comp. Ins. Claims | Pays for Own Insurance at Full Price All Time Off is Unpaid Vacation Time is Unpaid Sick time is Unpaid Family / Medical Leave is Unpaid Jury Duty is Unpaid Bereavement Leave is Unpaid Disabilities May Not be Accomodated Discrimination Ruses may not be Followed by Employer Not Eligible for OverTime Not Eligible for Minimum Wage / Hrs. Worked Breaks / Rest Periods are not Required Employers Pay Not Benefits Not Eligible for Fringe Benefits & Perks No Right to Form / Join a Union under Specific Employer Pay Your Own Expenses / Deduct from Your Own Taxes / May Incur unreimbursed expenses No Discounts on Group Benefits Not Eligible for Benefits Pay Your Own Health, Vision, Dental Secure Your Own Retirement / Not Eligible for Matching Pay You Own Short / Long Term Disability No Job Training Do Not Qualify for PTO Do Not Qualify Paid Vacation Do Not Qualify for Paid Family & Medical leave Do Not Qualify for Paid Sick Time Do Not Qualify for Paid Holiday Time Off Do Not Qualify for Holiday Pay Incentives Do Not Qualify for Unemployment Insurance Do Not Qualify for Worker's Compensation Insurance |
| Cultural Benefits | Employer: Employees tend to be more invested in business Employer: Longer ROI on Training & Development Employer: More Predictable Cost Employee: Perfomance Evaluations & Coaching Employee: Use Employer's Equipment Employee: Hired Indefinitely Employee: Involved in Key Business Activities Employee: Team Member Benefits Team Delegation & Collaboration Noticable Increase in Efficiency & Motivation Positive Impact on Mood / Mental State | IC: Engaged only for Project / No Investment in Business IC: May Take Training into Own Business IC: Unpredictable Costs / Difficulty Budgeting IC: No Performance Evaluations or Coaching IC: Expense & Wear & Tear on Own Equipment & Supplies IC: Hired Short-Term, Typically on Contract Terms, Must Renew Often No Input on Employer-Provided Contracts IC: Not Involved in Key Business Activities IC: Does Not Receive Team Benefits IC: More Flexible to Scale Work up or down As Needed IC: Must Build Own Network of Professionals for Persona/Professional Growth IC: Isolation May Leade to Increased Focus |

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| Cultural Benefits | Input on Workplace Policies & Procedures | |
| Cultural Cons | Employer: Employess Cost More Overall Employer/Employee: More Intense Hiring Process Employer/Employee: Less Flexibility to Scale | IC: May Constantly be In-Between Jobs Only 10% of the USA Workforce is Qualified & Classified As IC Correctly IC: No Long-Term Relationships with Co-Workers or Company IC: Distances the Company from the Worker IC: Lack of Job Security IC: No Team to Celebrate Victories With or Confide In IC: Out of Pocket, Unordinary, Unexpected Expenses IC: Typically Lower Credit Scores due to Variable Income |