

Differences between Employee & 1099 status

When a person is an employee, they are required to complete a W-4 form and at the end of the year they are issued a W-2 form for reporting purposes. The employer will automatically withhold and pay all of the necessary employee income taxes which are required by the IRS. The applicable taxes include: Federal Income Tax, State Income Tax, and FICA (Social Security and Medicare). In addition, the employer will pay all of the necessary employer taxes. These taxes shall include: FICA (Social Security and Medicare), FUTA (Federal Unemployment Tax), and SUI (State Unemployment Tax).

The employer is also responsible for providing the equipment and office space you will need. You may be eligible for some or all of the benefits your employer may offer such as medical, life, and disability insurance; pension plans; sick days; paid holidays, etc.

Working on a 1099 basis actually means that you are working as a true Independent Contractor under the IRS rules. You work on a 1099 basis when you are self employed such as a sole proprietor or as a corporation. Your clients will report the monies they pay you to the IRS on a 1099 form. Your clients will typically contract with you to work on a specific project. You should have a written contract with each client that will outline the work you will perform, the fees and/or cost the client will pay, and how the client will pay you. You will forward invoices to the client according to the contract terms.

Actual independent contractors are responsible for maintaining all business expenses and income and for making quarterly federal and state income tax payments.

Independent contractors use their own equipment/tools to complete their assignments and are not typically eligible to participate in the benefit offerings of their clients.