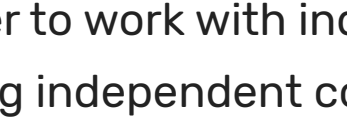


LAWS AND TAXES ▶ CONTRACTOR STATUS

Hiring and Paying an Independent Contractor

Taxes, Contractor Agreements, Backup Withholding



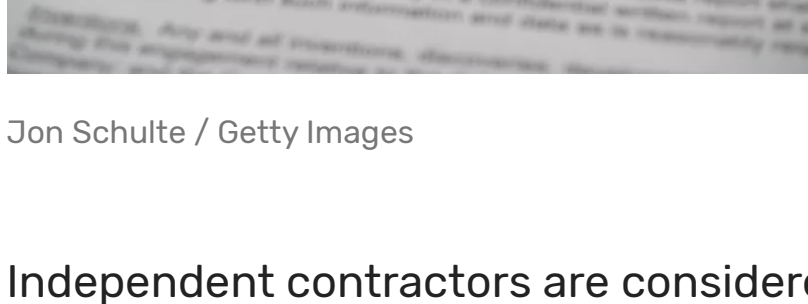
BY JEAN MURRAY | Updated November 20, 2019

Many small business owners prefer to work with independent contractors rather than hiring employees. Benefits of hiring independent contractors include:

- Being able to terminate the relationship easily without the paperwork and potential problems that go with firing an employee.
- Not having to pay [FICA taxes](#) (Social Security and Medicare) in terms of taxes, benefits, and agreements. But you must still have a [contract](#) (not an employment contract), and there is still paperwork you must complete and taxes that must be allocated.
- Less hiring paperwork, fewer reports, and payments to the IRS.

But, as the hiring employer, there are still some things you must do to hire that independent contractor and start paying that person.

01 What Is an Independent Contractor?



Jon Schulte / Getty Images

An independent contractor is an individual who does work for another individual or company. The contractor is, by definition, independent, and not an [employee](#) of the hiring company.

A perfect example of an independent contractor is a cleaning service. The service comes into your office to do work, but the cleaning service workers are not employees of your company.

Independent contractors are considered to be business owners. They report income on their personal tax returns, and they can deduct business expenses.

02 Make Sure the Worker Is an Independent Contractor, Not an Employee



For various reasons (mostly to do [with payroll taxes](#)), the IRS is concerned that workers are appropriately classified as either [independent contractors](#) or employees. FYI: The IRS considers that worker to be an employee unless you can prove otherwise.

Thomas Barwick/Getty Images

The [IRS determines the status of workers](#) on a case-by-case basis, and it looks at several factors – including behavioral, financial, and control – to determine status. If you are unclear about the status of people who work for your business, you can [request a determination from the IRS](#).

Mis-classification of a new worker as an independent contractor can create tax [liabilities](#), fines, and penalties for your business, so be sure that the worker you are hiring is an independent contractor, not an employee. This article explains the difference.

03 Form W-9 for Independent Contractors



Form W-9 must be signed by all independent contractors when they begin work for your business. This form is required to provide a [tax ID number](#) (social security number, [employer ID \(EIN\)](#), or other.

Thomas Barwick/Getty Images

The W-9 form serves the same purpose as a W-4 form for newly-hired employees.

If a contract worker doesn't have a tax ID number on file, they may be subject to withholding from their payments (called [backup withholding](#)).

04 New Hire Paperwork for an Independent Contractor



The [new hire paperwork](#) needed for an [independent contractor](#) is

1. A) [Form W-9](#) (similar to a W-4 form for employees) to provide a [taxpayer identification number](#),
2. a copy of the person's resume or professional qualifications, for your own protection and to verify in case of an audit, and
3. a copy of the contract. Even the most simple IC relationship should have a contract.

Peopleimages/Getty Images

05 Check Credentials Before Hiring an Independent Contractor



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In the same manner, as you check references for an employee, be sure you check the credentials of a contractor before hire. For example, if you are considering hiring a bookkeeper, make sure this person has no felony convictions.

Do a background check on all prospective contractors, in the same way, you check before you hire employees.

If the independent contractor is organized as a business, you should do a check with the [Better Business Bureau](#) to make sure no complaints have been filed against this business.

Don't forget the tried-and-true web search, including reviews of the business.

06 Paying an Independent Contractor



Paying an independent contractor is pretty simple. You can pay by the hour or by the job. In most situations, no income tax is withheld, no FICA taxes (Social Security and Medicare) need to be withheld, and no other [employment taxes](#) must be paid.

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07 Independent Contractors and Employment Taxes



You must keep track of payments you make to independent contractors each year. You do not need to withhold [FICA taxes](#) ([Social Security and Medicare tax](#)) from these payments.

Bob Trivaglione Fotofedge/Getty Images

For each independent contractor you paid \$600 or more during the year, you must report the total amount paid on Form [1099-MISC](#) and give a copy of this form to the contractor for his/her income taxes.

The 1099-MISC must be given to the contractor no later than the last day of January the following year, and a [Form 1096](#) must be sent to the [Social Security Administration](#) by the end of February, with copies of the 1099 [forms](#).

08 Withholding Income Taxes From an Independent Contractor



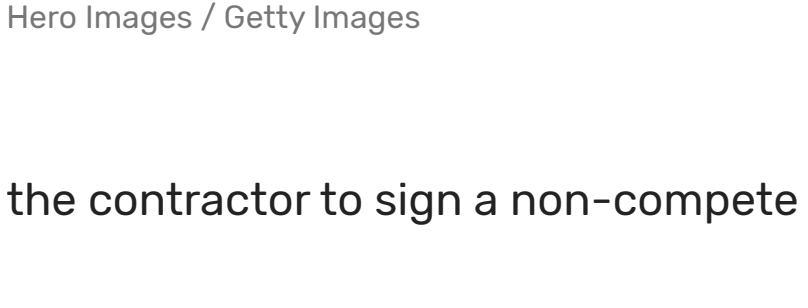
In most circumstances, you do not need to [to withhold income taxes from the payments you make to](#) independent contractors. But there are some exceptions:

David Burton/Getty Images

You as a business owner and payer must withhold taxes on payments to an independent contractor if:

- The taxpayer has not given you a [taxpayer identification number](#) (Social Security Number, [Employer ID Number](#), or Individual Taxpayer ID Number)
- The IRS has notified you that the [taxpayer ID number](#) is incorrect
- The IRS has notified you that the taxpayer has not reported all interest or dividend income in prior years

09 Creating a Contract for an Independent Contractor



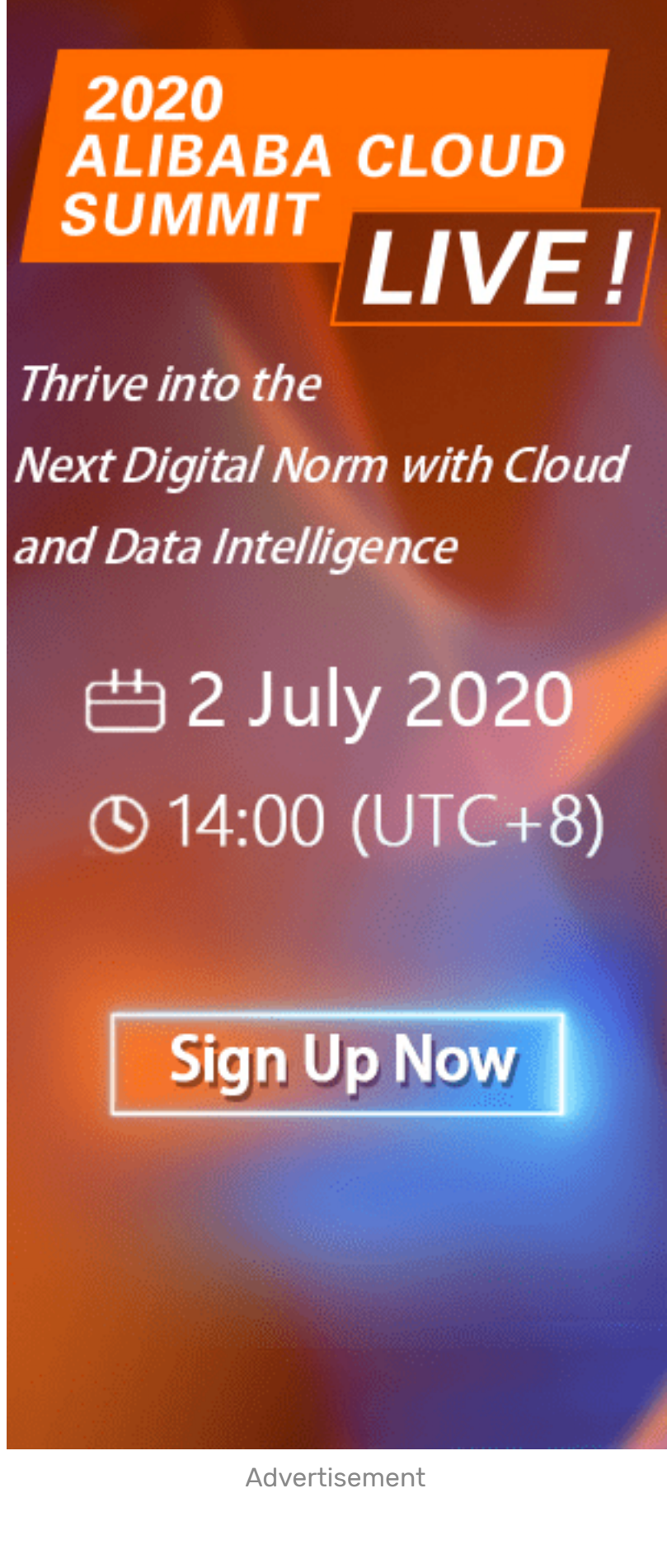
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In every case, before you hire an independent contractor, create an agreement and get it signed by the contractor. The agreement should include details about the requirements of the contractor, pay rates, and sections about non-disclosure and confidentiality.

If the contractor is creating [intellectual property](#), the ownership of this property should be made clear. Finally, you may want the contractor to sign a non-compete agreement.



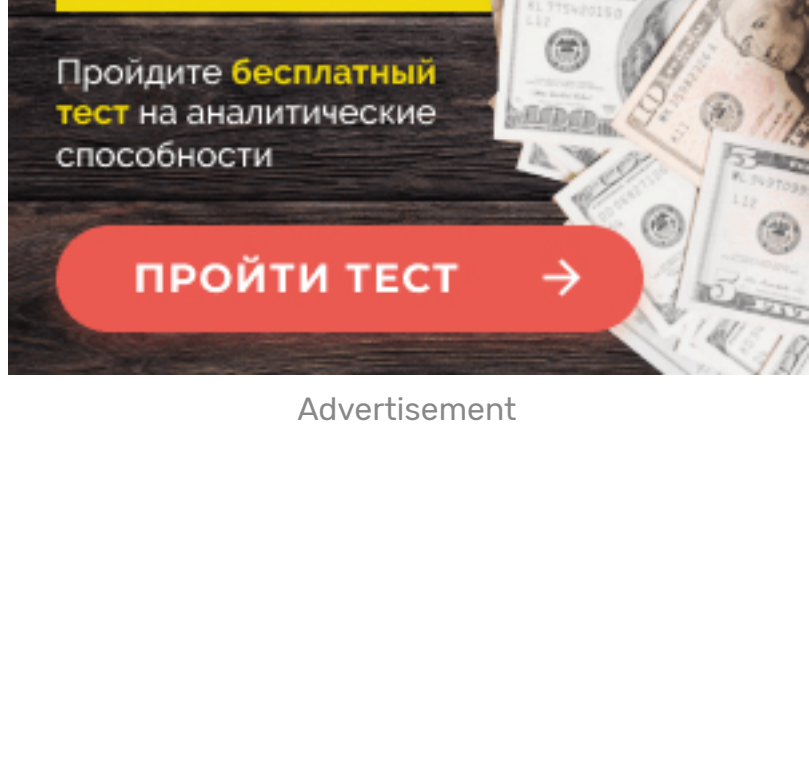
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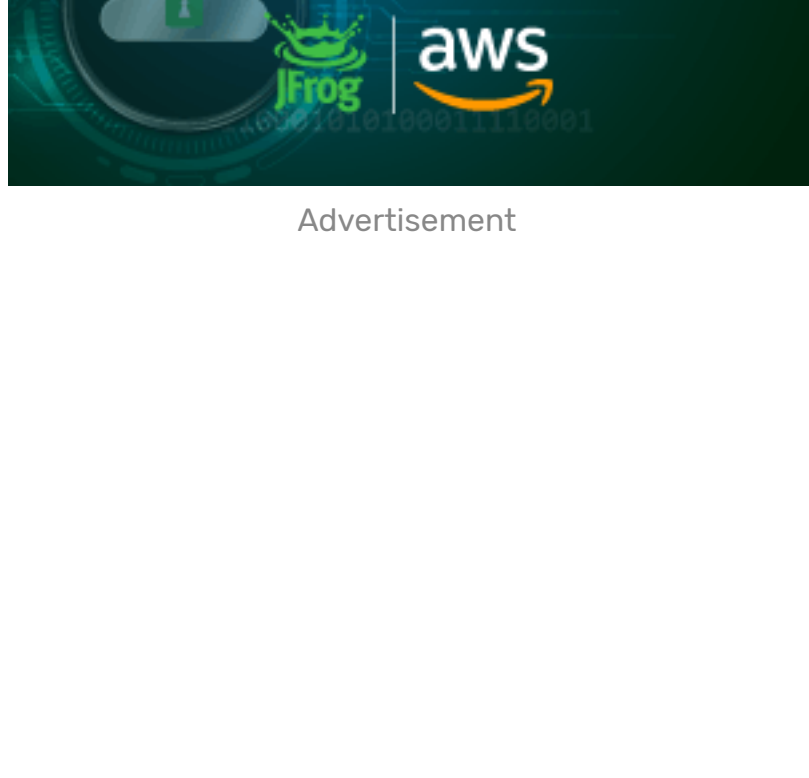
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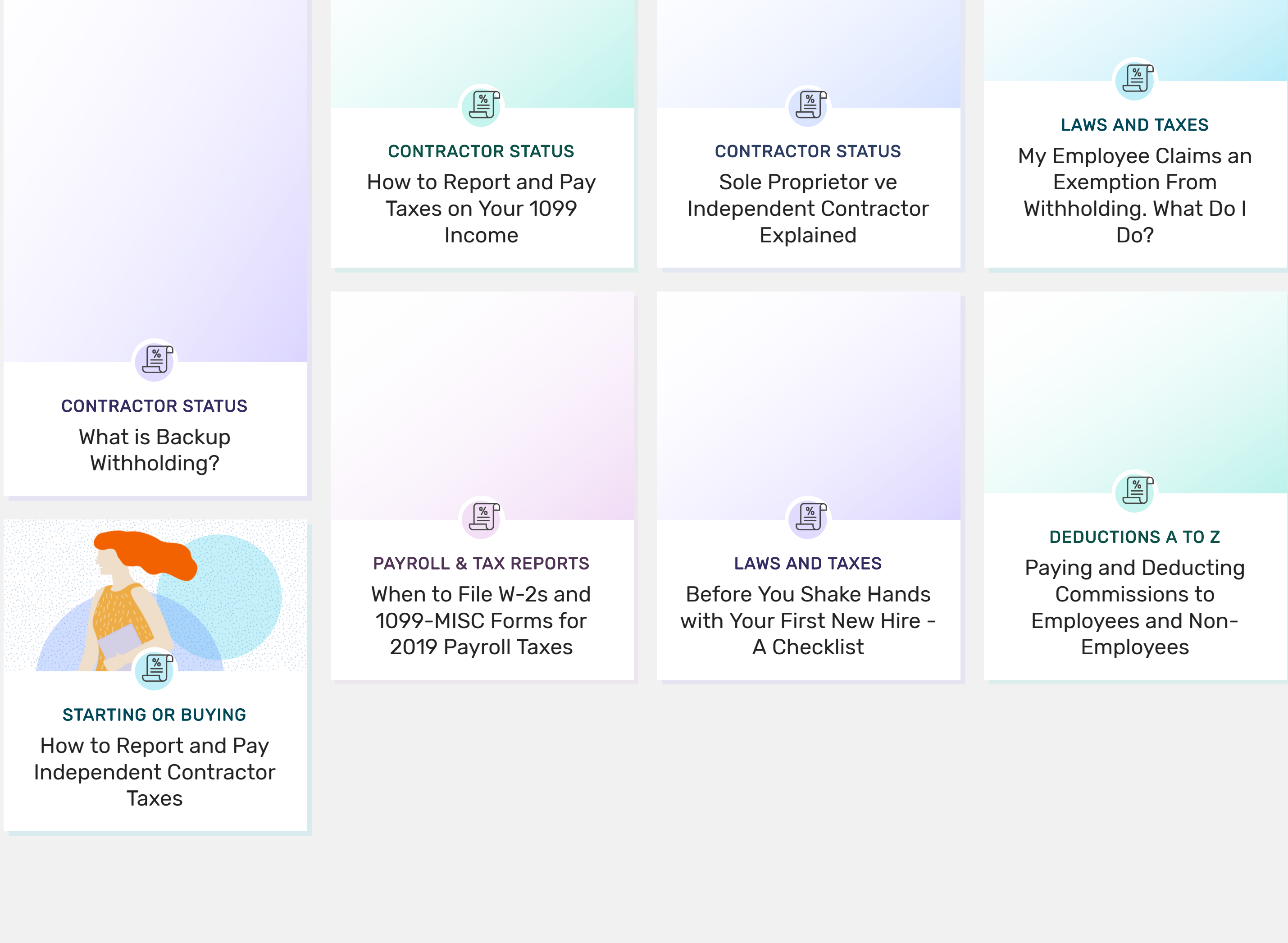
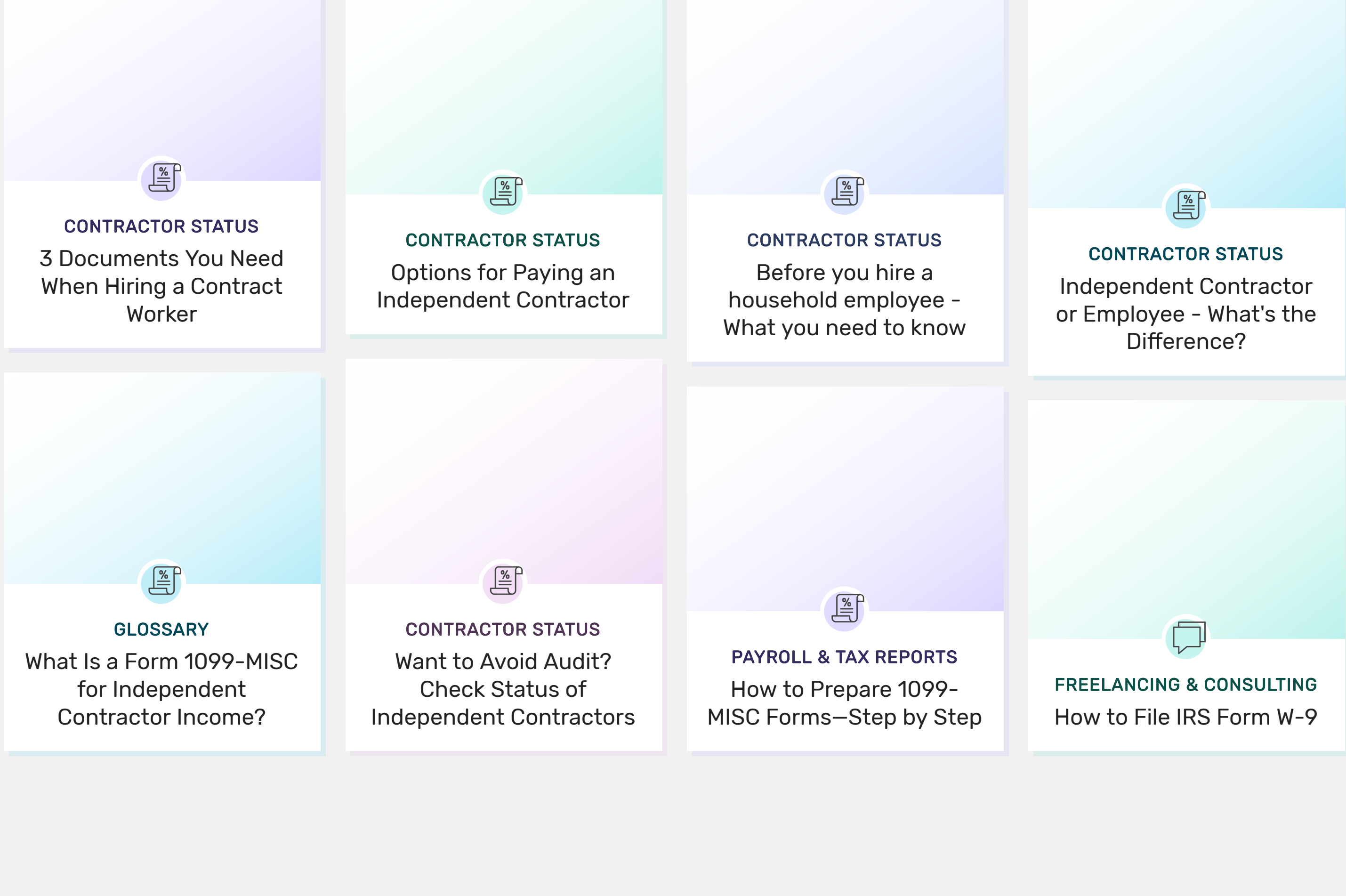
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