

SUBCONTRACTOR OR EMPLOYEE?

MAKE SURE YOU KNOW THE DIFFERENCE



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How the IRS Views Employment vs. Independent Contracting

The business/subcontractor relationship is judged on numerous criteria and tests, and all together these add up to some very subjective rulings. The U.S. Supreme Court has said that there is no single factor that determines whether a worker is indeed an independent contractor or an employee.

The IRS, for its part, breaks the criteria for examining the relationship into three main categories:

Behavioral – Does the company control how, where, when, and in what sequence the worker will perform the work? Will the worker use tools, equipment, and materials provided by the company? Does the company train the worker to do the work?

Financial – Is the worker paid hourly or weekly, or in a lump sum for the entire project? Does the worker have expenses and investment that could cause him to lose money in doing the work? Does the worker make his services available to others besides the company, i.e., to the general public?

Type of Relationship – Is there a written, signed contract between the parties? Is the relationship considered by either the company or the worker to be permanent? Is the work performed by the worker a key aspect of the company's business?

Note: The above is just a representative sampling of the questions and tests that can be used in determining the nature of the relationship between a business and its workers.

For a more detailed explanation, visit the [IRS webpage that addresses the employee-subcontractor issue](#). The U.S. Small Business Administration also offers [a more in-depth, supportive resource](#) that examines the question at its site.

Subcontractors can help your business immensely. Just make sure that it's a subcontractor you're getting!



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