

WORKER CLASSIFICATION GUIDE



Here's a breakdown of the differences between an Employee, Independent Contractor, and Subcontractor, along with example questions business owners can ask themselves when trying to determine which category someone falls under

01

EMPLOYEE

Definition:

A person hired by a business who works under the control and direction of the employer. The business withholds income taxes, pays employer taxes, and may provide benefits.

Key Characteristics:

- Business controls what work is done and how it's done
- Works regular hours set by the business
- Uses business tools, equipment, and space
- Eligible for benefits (health insurance, PTO, etc.)
- Covered by labor laws and workers' compensation

Questions to Ask:

- Do I control how, when, and where the person works?
- Am I providing training, tools, or ongoing supervision?
- Is the worker performing a role that is central to my business operations?
- Will they work long-term or indefinitely for my business?
- Do I plan to offer benefits or withhold taxes?

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INDEPENDENT CONTRACTOR

Definition:

A self-employed individual hired to complete specific work or projects with minimal oversight. Responsible for their own taxes and business expenses.

Key Characteristics:

- Controls how and when the work is done
- Provides own tools/equipment
- Works for multiple clients
- Not eligible for benefits
- Paid by invoice (not on payroll)
- Files own taxes using a 1099

Questions to Ask:

- Is the worker free to take on work from other clients?
- Do they set their own schedule and methods?
- Are they using their own tools and resources?
- Do they invoice me rather than getting paid through payroll?
- Would a written contract define the project scope and deadline?

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SUBCONTRACTOR

Definition:

A third-party hired by an independent contractor or business to perform a portion of the work under a larger contract or project.

Key Characteristics:

- Typically works under a contractor, not directly for the end client
- Has a specific scope of work defined in a subcontract agreement
- May be a solo worker or a business entity
- Paid by the contractor (not directly by the client)
- Also typically a 1099 worker

Questions to Ask:

- Is this person being hired by another contractor rather than my business?
- Are they performing a defined piece of a larger contract?
- Am I overseeing them directly, or is someone else (a general contractor) managing their work?
- Do they have their own business entity or insurance?
- Is there a written subcontractor agreement?