

[CLICK HERE](#) to return to the home page



Independent contractor (self-employed) or employee?

It is critical that business owners correctly determine whether the individuals providing services are employees or independent contractors.

Generally, you must withhold and deposit income taxes, social security taxes and Medicare taxes from the wages paid to an employee. Additionally, you must also pay the matching employer portion of social security and Medicare taxes as well as pay unemployment tax on wages paid to an employee. Generally, you do not have to withhold or pay any taxes on payments to independent contractors.

Select the scenario that applies to you:

- **I am an independent contractor or in business for myself.** If you are a business owner or contractor who provides services to other businesses, then you are generally considered self-employed. For more information on your tax obligations if you are self-employed (an independent contractor), see our [self-employed individuals tax center](#).
- **I hire or contract with individuals to provide services to my business.** If you are a business owner hiring or contracting with other individuals to provide services, then you must determine whether the individuals providing services are employees or independent contractors. Follow the rest of this page to find out more about this topic and what your responsibilities are.

Determining whether the individuals providing services are employees or independent contractors

Before you can determine how to treat payments you make for services, you must first know the business relationship that exists between you and the person performing the services. The person performing the services may be:

- An [independent contractor](#)
- An [employee](#) (common-law employee)
- A [statutory employee](#)
- A [statutory nonemployee](#)
- A [government worker](#)

In determining whether the person providing service is an employee or an independent contractor, all information that provides evidence of the degree of control and independence must be considered.

Common law rules

Facts that provide evidence of the degree of control and independence fall into three categories:

1. **Behavioral:** Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. **Financial:** Are the business aspects of the worker's job controlled by the payer? (these include things like how worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
3. **Type of relationship:** Are there written contracts or employee type benefits (that is, pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. There is no "magic" or set number of factors that "makes" the worker an employee or an independent contractor and no one factor stands alone in making this determination. Also, factors which are relevant in one situation may not be relevant in another.

The keys are to look at the entire relationship and consider the extent of the right to direct and control the worker. Finally, document each of the factors used in coming up with the determination.

Related

- [Businesses with employees](#)
- [Hiring employees](#)
- [Know Who You're Hiring Independent Contractor \(Self-employed\) vs Employee](#)
- [Voluntary Classification Settlement Program \(VCSP\) frequently asked questions](#)
- [Topic no. 762, Independent contractor vs. employee](#)

Forms & instructions

- [About Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding](#)
- [Completing Form SS-8](#)

Publications

- [About Publication 15, \(Circular E\), Employer's Tax Guide](#)
- [About Publication 15-A, Employer's Supplemental Tax Guide, \(Supplement to Pub. 15, Employer's Tax Guide\)](#)
- [About Publication 15-B, Employer's Tax Guide to Fringe Benefits](#)
- [Publication 1779, Independent Contractor or Employee \(PDF\)](#)
- [Publication 5067, Voluntary Classified Settlement Program \(VCSP\) "At a Glance" \(PDF\)](#)
- [Publication 5520, How Businesses Determine if a Worker is an Employee or Independent Contractor \(PDF\)](#)

Videos

- [IRS Video Portal](#)

Remote worker

An individual working remotely, for example, performing services for you from a location other than an office operated by you, is your employee under the common-law rules, if you can control what will be done and how it will be done. This is so even if the worker can choose to work remotely. What matters is that you have the right to control the details of how the services are performed.

If the remote worker is a U.S. citizen or resident alien employed outside the United States by an American employer review the following pages for additional information.

- [Federal income tax withholding for persons employed abroad by a U.S. person](#)
- [Social Security and Medicare tax for U.S. citizens and resident aliens employed abroad by American employer](#)
- [U.S. citizens and resident aliens employed abroad - FUTA](#)

Form SS-8

If it is still unclear whether a worker is an employee or an independent contractor after reviewing the three categories of evidence, then [Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding](#) [PDF](#), can be filed with the IRS. The form may be filed by either the business or the worker. The IRS will review the facts and circumstances and officially determine the worker's status.

Be aware that it can take at least six months to get a determination. A business that continually hires the same types of workers to perform particular services may want to consider filing the [Form SS-8](#) [PDF](#).

Employment tax obligations

Once a determination is made (whether by the business or by the IRS), the next step is filing the appropriate forms and paying the associated taxes.

- [Forms and associated taxes for independent contractors](#)
- [Forms and associated taxes for employees](#)



Misclassification of employees

[File](#)

[Pay](#)

[Refunds](#)

[Credits & Deductions](#)

[Forms & Instructions](#)

Consequences of treating an employee as an independent contractor

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, then you may be held liable for employment taxes for that worker (the relief provisions, discussed below, will not apply). See Internal Revenue Code section 3509 for more information.

Relief provisions

If you have a reasonable basis for not treating a worker as an employee, then you may be relieved from having to pay employment taxes for that worker. To get this relief, you must file all required federal information returns on a basis consistent with your treatment of the worker. You (or your predecessor) must not have treated any worker holding a substantially similar position as an employee for any periods beginning after 1977. See [Publication 1976, Section 530 Employment Tax Relief Requirements](#) [PDF](#), for more information.

Misclassified workers can file Social Security tax form

Workers who believe they have been improperly classified as independent contractors by an employer can use [Form 8919, Uncollected Social Security and Medicare Tax on Wages](#), to figure and report the employee's share of uncollected Social Security and Medicare taxes due on their compensation.

Voluntary Classification Settlement Program

The [Voluntary Classification Settlement Program \(VCSP\)](#) is an optional program that provides taxpayers with an opportunity to reclassify their workers as employees for future tax periods for employment tax purposes with partial relief from federal employment taxes for eligible taxpayers that agree to prospectively treat their workers (or a class or group of workers) as employees. To participate in this voluntary program, the taxpayer must meet certain eligibility requirements. Apply to participate in the VCSP by filing [Form 8952, Application for Voluntary Classification Settlement Program](#), in order to enter into a closing agreement with the IRS.

- [Proper Worker Classification Audio](#) [🔗](#)
- [Small Business Taxes: The Virtual Workshop - Worker Classification](#) [🔗](#)

