Employee vs. Independent Contractor Classification Guide

Ensuring your workers are correctly classified matters to your business success. Here's a quick reference chart that can help guide you. And it's important to keep in mind that some states have stricter worker classification requirements than the federal ones we're outlining here. A worker may qualify as an independent contractor federally, but not under state law.

Category	Employee	Independent Contractor
Degree of control	The business generally has the right to direct and control both what work is performed and how it is performed.	Business generally controls the result of the work, but the contractor controls the means, methods, timing, and manner of performance.
Behavioral control	Business gives detailed instructions, requires specific procedures, provides training, and evaluates how the work is performed.	Contractor decides how to perform the services, uses independent judgment, and is not trained or closely directed by the business.
Financial control	The worker has little investment, paid regularly, has limited unreimbursed expenses, and does not have a meaningful risk of profit or loss.	Contractor has significant business investment, pays unreimbursed expenses, can realize a profit or loss, and is paid by project or contract.
Relationship indicators	Various worker benefits are provided. Worker is integrated into regular business operations, or the business can terminate the worker like other employees.	Contractor provides services to multiple clients. No employee-type benefits are provided.
Expenses/equipment	Business provides tools, equipment, supplies, workspace, and reimbursement for business expenses.	Contractor provides own tools, equipment, supplies, insurance, licenses, workspace, and bears unreimbursed expenses.
Profit or loss opportunity	Employees generally receive regular wages or salary and usually do not have a direct opportunity for entrepreneurial profit or risk of business loss.	Contractors may increase profit through efficient work, pricing, hiring assistants, managing costs, and serving multiple customers.
Duration/integration	An indefinite, ongoing relationship and work that is a regular or integrated part of the business may point toward employee status.	A defined project, limited term, or specialized service outside day-to-day operations may point toward contractor status.
Compliance risk	Misclassification risk is lower when the business treats a worker as an employee and satisfies withholding, payroll tax, wage/hour, benefits, and reporting obligations.	Misclassification can lead to tax assessments, penalties, interest, benefits exposure, wage/hour claims, and state-law issues. No single factor is determinative, must look at all factors.

What to do next

Worker classification isn't always straightforward, and misclassifying employees and independent contractors can lead to significant tax, payroll, wage and hour, and benefits compliance issues. Our top fractional HR and tax pros can help you assess worker classifications, reduce compliance risk, and understand the tax and employment implications. Contact us today for a free consultation, and let's build a brighter future – together.