

1099-Independent Contractors vs. W-2 Employees: The Comparison Guide

You're likely aware of California's new law, Assembly Bill 5, adopted at the start of 2020. The bill changes the way businesses classify independent contractors and might have you wondering what that means for your workers.

Several factors differentiate employees (who receive W-2 forms during tax season) and independent contractors (who receive 1099 forms), and keeping track of the criteria can be difficult. Both types of workers are vital to businesses that aim to provide a great customer experience while retaining a flexible workforce. Understanding the distinctions between the two is equally as important if you want to avoid hefty IRS penalties.

We put together a comparison guide to show the major differences between employees and independent contractors.

W2 Employees

Form: Employees receive a W-2 form.

Taxes: Payroll taxes (including Social Security and Medicare) are automatically deducted from a worker's paycheck and then paid to the government through the employer.

Pay: W-2 employees receive a regular wage and employee benefits and are guaranteed minimum wage.

Type of work: An employee works for a company according to the business's needs and schedule.

Management: The employer has a significant degree of control over the employee's work.

Termination: In most cases, a company can let an employee go for poor performance or any other valid, non-discriminatory reason.

Tools and Supplies: Necessary materials and tools are provided by the company for W2 employees to perform their work.

Benefits: Benefits like health insurance, retirement contributions, and flexible spending accounts are available to all qualifying employees.

1099 Independent Contractors

Form: Independent contractors are self-employed and receive a 1099 form.

Taxes: Contractors are responsible for calculating their payroll taxes, then paying the government directly each quarter.

Pay: 1099 employees receive pay according to the terms of their contract and get a 1099 form to report income on their tax return. Independent contractors assume the risk for their profit or loss when they carry out their jobs

Type of work: Independent contractors generally provide specific services, as defined by a written contract. Some 1099 workers only work on one project at a time, but many serve multiple clients, providing a service within their expertise and skillset

Management: Independent contractors determine their schedules and working hours. They also define how and where they work, and what tools and methods they use to complete their work.

Termination: Businesses engage independent contractors for a defined period, per the conditions outlined in the contract. That engagement may be renewed as many times both parties agree.

Tools and Supplies: Independent contractors are responsible for supplying their own tools and materials to complete their work.

Benefits: Independent contractors typically do not receive benefits from the employer, such as paid time off, sick leave, and health benefits.

Now that you've looked at the key differences side-by-side, you have an idea of the types of workers you've staffed in the past. If you're still unsure of how this might affect your business, consider the benefits of working with a staffing partner like PeopleReady that provides qualified W-2 workers.

A staffing firm that provides W-2 workers:

- Takes responsibility for the workers
- Provides the benefits
- Guarantees the minimum wage
- Is responsible for payroll taxes
- Ensures workers are committed to the job because they're screened beforehand
- Allows you more time to focus on other business aspects aside from staffing

When you find workers with PeopleReady, you can be confident in the workers that you get. And with branches throughout California, we're able to help you access the talent you require.

You also have immediate access to JobStack, our mobile and desktop app that allows you to find, hire, and schedule workers from wherever you are, at any time. Due to the new bill, not every staffing app continues to operate in California. So as you choose your next staffing partner, ensure they can provide you with the W-2 workers you need and the convenient technology that will make your job easier.

<https://www.peopleready.com/jobstack/customer>

