



QUICK GUIDE

W2 Employee or 1099 Independent Contractor?



Do you know how to tell if you've hired a **W2 employee** or a **1099 independent contractor**?

Reports have shown that 10 to 20% of independent contractors are misclassified.

It is advantageous to hire independent contractors, but not if they are misclassified. Hiring independent contractors / freelancers increase flexibility and reduce labor expenses (i.e., training and tax costs). However, it is important to ensure that you (as an employer) properly classify workers to avoid liabilities and penalties due to violations of tax laws.

There are **behavioral, financial, and relationship control factors**

that determine whether the person you are hiring ought to be classified as an employee or an independent contractor. Agreeing with the worker or an independent contractor status without reasonable basis does not safeguard against being held legally liable for misclassification.

Use this guide to help you assess whether someone in your business ought to be classified as a W2 employee or 1099 independent contractor.

Then, learn about the Liquid platform for maintaining independent contractor compliance.

W2 Employee

BEHAVIORAL FACTORS

- Worker works on site
- Employer supervises worker's job
- Employer sets work hours
- Worker has regular work hours
- Employer provides equipment and tools to worker
- Employer provides specific instructions on how to perform the job
- Employer evaluates work regularly
- Employer provides training to worker

FINANCIAL FACTORS

- Employer pays or reimburses for expenses incurred to perform the job
- Worker is salaried
- Employer sets hourly rate and deducts taxes

RELATIONSHIP FACTORS

- Worker and employer have an employment agreement, offer letter and job description
- Worker receives benefits from employer
- Worker and employer have long-term work relationship
- Worker works only for company

1099 worker

BEHAVIORAL FACTORS


- Worker works off-site
- Worker has irregular work hours
- Worker invests in equipment and tools for use in job
- Worker decides how to perform the job
- Worker is evaluated solely on end product or services provided

FINANCIAL FACTORS

- Worker pays own expenses incurred to perform the job
- Worker has ability to have profit or loss from job
- Worker sets hourly rate or receives a flat fee

RELATIONSHIP FACTORS

- Worker and employer have contract for services or products
- Worker pays for his/her own benefits
- Work relationship is only for a specific project or period of time
- Worker performs similar projects for other companies



Liquid helps you maintain independent contractor compliance. Here's how:

BEHAVIORAL FACTORS

- Liquid makes it easy to create projects with specific timeframes.
- With Liquid, you can effortlessly agree to project SOWs with your freelancers.
- Creating projects in Liquid makes it clear that your freelancers are being evaluated solely on end product or services provided.

FINANCIAL FACTORS

- With Liquid, you can quickly agree to specific hourly rates or project-based fees for each SOW.

RELATIONSHIP FACTORS

- Liquid simplifies signing independent contractor agreements with your freelancers and vendors.
- Liquid encourages contractors to use an EIN (versus SSN), which helps make it clearer that you are using a 1099 worker versus someone you should be hiring as a W2 employee.
- Liquid helps with consistent treatment of your outside vendors, in a way that is scalable.
- Using Liquid allows you to separate the management of your full-time employees from your outside contractors and vendors.
- Liquid allows your freelancers to quickly create SOWs with other clients, which reinforces their independent contractor status.

If you are working with properly classified 1099 independent contractors and/or vendors, **Liquid** helps you stay compliant.

Disclaimer: We are not providing legal, tax or payroll advice. Please consult your legal, tax and payroll professionals. These are simply to serve as guidelines based on our own experiences.



About Liquid

Founded in 2019, Liquid is on a mission to power one million agile businesses. We believe that agile businesses—those that thrive using a global network of vendors and independent contractors in addition to their full-time employees—are the key to making work perfectly fit the needs of everyone and every business.

As their numbers grow, so will opportunities for people who want the flexibility to do good work for more than one business at a time and have control over how they work.

The Liquid platform streamlines the way a business' finance, operations and talent management teams work with its vendor and supplier networks in the U.S. and abroad. We simplify contracting and global payments while ensuring financial controls and compliance.

Hundreds of businesses spanning professional services firms, creative agencies and high-growth startups turn to the Liquid platform to get more done.

Liquid is backed by Resolute Ventures, Mucker Capital and Techstars.



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