



W-2 Employee vs. 1099 Contractor

A fast-reference classification checklist for HR teams

W-2 EMPLOYEE	VS FACTOR	1099 CONTRACTOR
Employer controls hours & schedule	 Who sets the schedule?	Worker sets their own hours, but can still be given project deadlines.
Employer provides tools, workspace, materials	 Who provides equipment?	Contractor uses their own equipment
Typically works only for this employer	 Exclusivity	Often works for multiple clients
Regular salary or hourly wage	 How is pay structured?	Project-based or invoice-based fees
Employer withholds income, SS & Medicare	 Tax withholding	Contractor pays own self-employment tax
Eligible (health, PTO, retirement, etc.)	 Benefits eligibility	Not entitled to employer benefits
Core/ongoing part of business operations	 Work integration	Specialized or project-specific task
Employer directs HOW work is performed	 Control over work methods	Worker controls the process & methods
No defined end — ongoing relationship	 End date / project scope	Usually has defined deliverable or end date

THE IRS THREE-FACTOR TEST



BEHAVIORAL CONTROL



FINANCIAL CONTROL



TYPE OF RELATIONSHIP

The IRS evaluates worker classification across these three categories.
No single factor is decisive — the full picture of the working relationship determines classification.

The Golden Rule of Thumb

If you control **WHAT** gets done **AND HOW** it gets done → that worker is most likely an **employee (W-2)**.
If you define the end result but **the worker controls the process** → that's closer to a **contractor (1099)**.



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