



An employee is generally considered to be anyone who performs services, if the business can control what will be done and how it will be done. What matters is that the business has the right to control the details of how the worker's services are performed.

### **Independent contractor vs. employee**

Whether a worker is an independent contractor or an employee depends on the relationship between the worker and the business. Generally, there are three categories to examine:

- Behavioral Control - does the company control or have the right to control what the worker does and how the worker does the job?
- Financial Control - does the business direct or control the financial and business aspects of the worker's job. Are the business aspects of the worker's job controlled by the payer? (Things like how the worker is paid, are expenses reimbursed, who provides tools/supplies, etc.)
- Relationship of the Parties - are there written contracts or employee-type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

### **Misclassified worker**

Misclassifying workers as independent contractors adversely affects employees because the employer's share of taxes is not paid, and the employee's share is not withheld. If a business misclassified an employee without a reasonable basis, it could be held liable for employment taxes for that worker. Generally, an employer must withhold and pay income taxes, Social Security and Medicare taxes, as well as unemployment taxes.

### **Who is self-employed?**

Generally, someone is self-employed if any of the following apply to them.

- They carry on a trade or business as a sole proprietor or an independent contractor.
- They are a member of a partnership that carries on a trade or business.
- They are otherwise in business for themselves (including a part-time business).

Self-employed individuals generally are required to file an annual tax return and pay estimated tax quarterly. They generally must pay self-employment tax (Social Security and Medicare tax) as well as income tax. Self-employed taxpayers may be able to claim the home office deduction if they use part of a home for business.

### **What about the gig economy?**

The gig economy - also called sharing economy or access economy-is activity where people earn income by providing on-demand work, services, or goods. Gig economy income must be reported on a tax return, even if the income is: from part-time, temporary, or side work; not reported on a Form 1099-K, 1099-MISC, W-2 or other income statements; or paid in any form, including cash, property, goods or virtual currency.