

W-2 VS. 1099

HOW TO CLASSIFY WORKERS CORRECTLY



Hiring help for your business is exciting—but how you classify those workers determines whether the IRS sees you as compliant or confused.

The line between W-2 employees and 1099 contractors might look like simple paperwork, but it carries big implications for taxes, benefits, and liability.

Get it right, and you build stability. Get it wrong, and you risk penalties, back taxes, and a very unpleasant letter from the Department of Labor.

WHY WORKER CLASSIFICATION MATTERS

Worker classification affects everything—how you pay, what you owe, and what protections each worker receives.

Misclassification doesn't just trigger IRS scrutiny; it can also lead to wage disputes, unemployment claims, and benefit issues.

In short: let's make sure you get it right.

UNDERSTANDING THE TWO WORKER TYPES

W-2 EMPLOYEES

When you hire someone as a W-2 employee, you take on responsibility for withholding payroll taxes and providing employee benefits. Employees typically work under your direction and use your tools, processes, and schedules.

PROS FOR EMPLOYERS	CONS FOR EMPLOYERS
<ul style="list-style-type: none">• Creates consistency and reliability within your team.• Build long-term loyalty and reduces turnover.• Simplifies oversight and quality control.	<ul style="list-style-type: none">• Higher payroll costs due to taxes and benefits.• Less flexibility in scaling labor up or down quickly.• Requires more administrative work (payroll, HR, benefits).

1099 INDEPENDENT CONTRACTORS

Independent contractors are self-employed professionals who provide services to your company. They control how and when they perform their work and generally use their own tools or methods.

PROS FOR EMPLOYERS	CONS FOR EMPLOYERS
<ul style="list-style-type: none"> Flexibility to bring on specialized talent as needed. No obligation to provide benefits or pay payroll taxes. Cost-effective for short-term or project-based needs. 	<ul style="list-style-type: none"> Higher payroll costs due to taxes and benefits. Less flexibility in scaling labor up or down quickly. Requires more administrative work (payroll, HR, benefits).

COMPLIANCE AND TAX RESPONSIBILITIES

FOR W-2 EMPLOYEES	FOR 1099 CONTRACTORS
Withhold federal and state taxes	Do not withhold taxes. Issue a 1099-NEC if annual payments exceed \$600 in 2025
Pay employer portions of FICA (Social Security and Medicare)	Contractor pays both employer and employee portions of self-employment tax
Provide benefits such as health insurance, PTO, and retirement plans (if offered)	No benefits required. Contractor manages their own insurance and expenses
File a W-2 at year-end	File a 1099-NEC at year-end

HOW THE IRS DETERMINES WORKER STATUS

The IRS and Department of Labor evaluate three main areas when determining whether someone should be classified as a W-2 employee or a 1099 contractor:

1 / BEHAVIORAL CONTROL

Do you control how, when, and where the work is done?

If yes, the worker likely qualifies as an employee.

2 / FINANCIAL CONTROL

Do you reimburse expenses, provide tools, or pay hourly wages?

Employees typically have less financial independence than contractors.

3 / TYPE OF RELATIONSHIP

Is the work ongoing and central to your business? Do you offer benefits?

Long-term, benefit-eligible workers are employees.

HOW TANNERY COMPANY CAN HELP

At Tannery Company, we understand the nuances of worker classification and the compliance challenges business owners face. You don't have to navigate this alone.

Our team helps you:

1. **Evaluate** each role using IRS and DOL criteria.
2. **Document** your classifications to support audit readiness.
3. **Implement** compliant systems for payroll and tax reporting.

Ask before you act. We'd rather help you prevent a classification mess than clean one up later. We're your partner in building a compliant, confident workforce.

BOTTOM LINE

Worker classification isn't glamorous, but it's one of the smartest risk-management moves you can make.

A single misstep can snowball into thousands in taxes and penalties—but getting it right builds a compliant, confident workforce (and keeps the IRS off your back).

Tannery Company can help you evaluate every role, document your decisions, and build payroll systems that keep you protected year-round.

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