

The Employee vs. Contractor Classification Checklist

Accurately classifying employees and contractors is essential for proper tax withholding and effective compliance management. Use the checklist given below to determine an individual's worker status and ensure compliance with IRS regulations.

When making your decision, consider the entire working relationship. According to the IRS guidelines, there's no set number of factors that determine whether a person is an independent contractor or an employee. You need to assess each situation individually and document the reasoning behind your decision. This checklist can help with that!

INDIVIDUAL'S NAME: _____

POSITION: _____

DEPARTMENT: _____

MANAGER: _____

CLASSIFICATION DATE: _____

REVIEW DATE: _____

Control and Independence Assessment

Behavioral Control Factors

- Instructions:** Does your company control how, when, and where the person works?
- Training:** Does your company provide training on procedures and methods?
- Integration:** Is the person's work integrated into the business operations?
- Work Schedule:** Does your company set specific hours or deadlines?

Financial Control Factors

- Equipment:** Does the person provide their own tools and equipment?

- Business Expenses:** Can the person incur unreimbursed expenses?
- Payment Method:** Do you pay the person by project/contract or on a regular salary basis?
- Profit/Loss Opportunity:** Can the person make a profit or suffer a loss?

Relationship Type and Benefits Analysis

Relationship Factors

- Contract:** Is there a written independent contractor agreement in place?
- Duration:** Is this a temporary or ongoing relationship?
- Exclusivity:** Does the person work for other companies?
- Business Purpose:** Is the work central to the company's business?

Benefits and Compliance Review

- Tax Withholding:** Will you withhold federal and state taxes?
- Benefits Eligibility:** Will the person receive health insurance, PTO, fringe, or retirement benefits?
- Workers' Compensation:** Is coverage required for this person?
- Forms:** Will you issue a W-2 (employee) or 1099-NEC (contractor)?

Classification Decision

Final Assessment

Based on your assessment of the factors above, this individual should be classified as:

- Employee:** The company controls how, when, and where the person works.
- Independent Contractor:** The person maintains control over their work methods and schedule.

Decision Factors Summary:

- Control Level:** _____
- Financial Relationship:** _____
- Relationship Type:** _____

Documentation Required

For Employees:

- Form I-9 and E-Verify processing
- Form W-4 for tax withholding
- Employee handbook acknowledgment
- Benefits enrollment forms
- Payroll system setup

For Independent Contractors:

- Form W-9 for tax information
- Independent contractor agreement
- Statement of work or project scope
- Invoice processing setup
- 1099-NEC filing preparation

Next Steps

Employee Classification:

- Add to the payroll system
- Set up benefits enrollment
- Begin tax withholding
- Provide an employee handbook
- Schedule an onboarding session

Independent Contractor Classification:

- Execute the contractor agreement
- Set up the vendor payment process
- Establish project deliverables
- Document the independent relationship
- Plan for 1099-NEC filing.

Need Help With Classification?

Many businesses struggle to classify employees accurately due to the complexity of employment laws. If you're uncertain about proper classification, [Justworks PEO](#) simplifies compliance by managing payroll, benefits, HR tasks, and employee classification with confidence.

Disclaimer: This checklist is provided for informational purposes only and serves as an example framework for employee vs. contractor classification. Consult with your legal counsel or tax advisor to ensure compliance with federal, state, and local employment laws.