

Independent Contract Labor

For federal tax purposes, the distinction between employee and independent contractor is important. Worker classification affects how the district will pay federal income tax, social security and Medical taxes.

Three main categories determine whether a worker is an independent contractor or an employee, behavioral control, financial control and relationship of the parties.

Behavioral Control

- ? A worker is an **employee** when the business has the right to direct and control the worker.
- ? An **employee** receives extensive instructions on how the work is to be done, including how, where or when to do the work, what tools or equipment to use, what assistants to hire, where to purchase supplies, etc.
- ? If the business provides the worker with training about required procedures and methods, this indicates the business wants the work done a certain way and suggests the worker may be an **employee**.

Financial Control

- ? Significant Investment – if the worker has a significant financial investment in his/her work, they may be an **independent contractor**.
- ? Expenses – if a worker is not reimbursed for some or all business expenses, the worker may be an **independent contractor**.
- ? Opportunity for Profit or Loss – if worker can realize a profit or incur a loss, it suggests they are in business for themselves and an **independent contractor**.

Relationship to Parties

- ? If the worker receives benefits, such as insurance, pension or paid leave, this indicates they are an **employee**.
- ? Written contracts show what both parties intend.

For more information on determining if your worker is an independent contractor, visit the [IRS website](#).

Other Considerations

Contract labor persons need to have a contract on file. Examples of Contract Labor Contracts:

[WACD Sample #1](#)

[WACD Sample #2](#)

[Department of Audit Sample Contract](#) from the Special District Accounting Handbook

Contract labor paid over \$600 in a single year must be reported to the IRS on a Form 1099. This includes banquet entertainment, speakers, etc.