

What is the Difference Between an Employee and a Subcontractor?

According to the IRS, “The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.”

Alternately, “You are not an independent contractor if you perform services that can be controlled by an employer (what will be done and how it will be done). This applies even if you are given freedom of action. What matters is that the employer has the legal right to control the details of how the services are performed.”

In short, someone who sets their own wage, hours, and chooses the jobs they take on is a subcontractor. Someone whose supervisor specifies their wage, hours, and work tasks is an employee.

This chart helps to showcase the main differences between employees and contractors:

A Subcontractor	An Employee
Pays their own taxes	Has taxes deducted automatically by their employer
Provides their own supplies, office space, business license, workers compensation insurance and equipment	Is given supplies, office equipment, and a workspace by their employer and does not require a business license and workers compensation insurance is covered by the employer
Sets their own hours	Is given work hours by their employer
Sets their own wage	Is paid a wage determined by their employer
Can reject or accept jobs	Can't reject tasks or jobs
Is not entitled to health benefits, vacation or sick days, or unemployment benefits through the contractor	May be entitled to health benefits, vacations and sick time, and unemployment benefits through their employer
Can work for multiple businesses or individuals	Usually only works for one employer
May not be offered consistent work	Is hired on a permanent basis
Is paid after a job is finished	Is paid on a consistent basis (for example, biweekly)
Is given a 1099-NEC at year-end (if paid \$600 or more)	Is given a W-2 at year-end
Fills out Form W-9	Fills out Form W-4

TAX FORMS FOR SUBCONTRACTORS VS. EMPLOYEES

Contractors and employees are handled differently according to tax and employment laws. Subcontractors pay their own employment, social security, and medicare taxes, while employers must pay these taxes for their employees.

As a business owner you must provide W-2 forms to your employees, and 1099 forms to your subcontractors.

Subcontractors are responsible for paying their own taxes and employees are not. As a business owner, it's your responsibility to provide these forms to your employees and understand the differences between them.