GUIDE

1099 vs W-2, contractor or employee?

A W-2 employee works under your control, and you withhold and match payroll taxes. A 1099 contractor runs their own business, and you just pay the invoice and file a 1099-NEC. The IRS looks at behavioral control, financial control and the relationship, not at what your contract calls the person.

QUICK FACTS

- **Employee.** You withhold and match payroll taxes
- **Contractor.** Filed for $2,000 or more paid in 2026
- **The test.** Behavioral, financial and relationship factors

What's the difference between a 1099 contractor and a W-2 employee?

ITEM	W-2 EMPLOYEE	1099 CONTRACTOR
Who controls the work	You decide how, when and where	They decide, you agree on the result
Taxes withheld	Federal income tax, Social Security, Medicare, and state where it applies	None
Taxes the business pays	7.65% match, plus federal and state unemployment	None
Year-end form	W-2, due January 31	1099-NEC if you paid $2,000 or more in 2026, due January 31
Benefits and protections	Minimum wage, overtime, unemployment and workers' comp	None from you

How does the IRS decide?

There's no single rule. The IRS weighs three groups of facts:

- **Behavioral control.** Do you train them, set their hours or tell them how to do the job?
- **Financial control.** Do they invest in their own tools, work for other clients, set their price, and risk a loss?

General information, not tax advice for your situation.

- **Relationship.** Is there a written contract, are benefits offered, and is the work a key part of your regular business?

If you can't tell, either party can file Form SS-8 and ask the IRS to decide, though it takes months.

Some states use stricter rules. California and several others apply an "ABC test" that makes many workers employees by default, so check your state before relying on the federal factors.

What does a hire cost each way?

An employee costs the wage plus about 7.65% in matching payroll taxes, unemployment tax, and any benefits and workers' comp. A contractor costs the invoice. That gap is why misclassification is tempting, and why the IRS and states look for it. Our payroll cost calculator shows the employer side.

What happens if I get it wrong?

If the IRS reclassifies a contractor as an employee, the business can owe the income tax it should have withheld, both halves of Social Security and Medicare, federal unemployment tax, penalties and interest. States can add unemployment tax, workers' comp penalties and wage claims. The Voluntary Classification Settlement Program can reduce the federal bill if you fix it yourself going forward.

Common questions

What is the 1099 threshold for 2026?
For payments made in 2026, you file a 1099-NEC for a contractor you paid $2,000 or more. It was $600 for earlier years. The threshold is set to adjust for inflation after 2026.

Can someone be a 1099 contractor and a W-2 employee for the same business?
Only for genuinely different work, and it draws attention. Usually the IRS treats the whole relationship as employment.

Do I need a W-9 from contractors?
Yes. Get a Form W-9 before you pay, so you have their name and taxpayer ID for the 1099.

Do I issue a 1099 to an S-Corp or C-Corp?
Usually not for services. Most payments to corporations are exempt, but payments to attorneys are reported regardless.

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