

Bringing on Contractors VS. Hiring Staff

Which Will Benefit Your Small Business the Most?

As your small business grows, you will find you cannot do everything on your own. To obtain the help you need, you can choose to outsource tasks to independent contractors or hire employees to whom you can delegate work.

To decide which will make the most sense for your company, it is important first to understand some of the key differences between working with independent contractors versus having employees on staff.

Employees vs. Independent Contractors: Four Points of Comparison

Compensation: Independent contractors who do work for you operate under their own business names. They are not on your payroll, and they will issue you invoices for their services rendered—typically based on an agreed upon flat fee or a per hour rate. With employees, you provide regularly scheduled paychecks that reflect compensation according to the salary or wages you agreed to pay them.

Tax Withholdings: With hired employees, you withhold their federal, state, and local taxes from their paychecks—and you are responsible for submitting those tax payments to the tax authorities. Independent contractors, on the other hand, must submit their own federal, state, and local income tax payments—including self-employment taxes (Social Security and Medicare/Medicaid)—to the tax authorities directly.

Company Benefits: When you have employees, you may be required by law to provide certain benefits, such as offering medical insurance, paying half of each employee's Social

Security and Medicare tax obligation, workers compensation insurance, and family and medical leave. You are not, however, required to provide benefits to independent contractors.

Management of Work: With employees, you have more control over how work is done, when it is done, and where it is done. With independent contractors, you cannot dictate their hours, the equipment they use to perform their work, or tell them how to do their work.

Which Should You Choose? That depends. Using independent contractors might save you some money on labor costs, minimize liability, and give you more flexibility if you choose to discontinue your working relationships. On the other hand, hiring staff gives you more control over the skills development of your employees and you call the shots on how, when, and where work is performed.

If you choose to sign on independent contractors to help you with your work, make sure it is clear they are not employees. Consider having them sign an Independent Contractor (or Work For Hire) Agreement and request they sign a W-9 (Request for Taxpayer Identification Number and Certification) form to identify them as a contractor.

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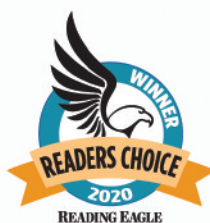
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