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business can control what will be done and how it will be done. What matters is that the business has the right to control the details of how the worker's services are ...

Sep. 15, 2021

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		2020 Form 1099-NEC		Nonemployee Compensation	
PAYER'S TIN		RECIPIENT'S TIN		1 Nonemployee compensation \$	
RECIPIENT'S name		3		Copy 1 For State Tax Department	
Street address (including apt. no.)		4 Federal income tax withheld \$			
City or town, state or province, country, and ZIP or foreign postal code					
FATCA filing requirement <input type="checkbox"/>					
Account number (see instructions)		5 State tax withheld \$		6 State/Payer's state no.	
				7 State income \$	

Correctly classifying whether workers providing services are employees or independent contractors is a critical tax issue for small businesses.

An employee is generally considered to be anyone who performs services, if the business can control what will be done and how it will be done. What matters is that the business has the right to control the details of how the worker's services are performed. Independent contractors are normally people in an independent trade, business or profession in which they offer their services to the public. Doctors,

dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public

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aspects of the worker's job. Are the business aspects of the worker's job controlled by the payer? (Things like how the worker is paid, are expenses reimbursed, who provides tools/supplies, etc.)

- **Relationship of the Parties** – are there written contracts or employee type benefits (i.e. pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

## Misclassified worker

Misclassifying workers as independent contractors adversely affects employees because the employer's share of taxes is not paid, and the employee's share is not withheld. If a business misclassified an employee without a reasonable basis, it could be held liable for employment taxes for that worker. Generally, an employer must withhold and pay income taxes, Social Security and Medicare taxes, as well as unemployment taxes. Workers who believe they have been improperly classified as independent contractors can use [IRS Form 8919, Uncollected Social Security and Medicare Tax on Wages \(.pdf\)](#) to figure and report their share of uncollected Social Security and Medicare taxes due on their compensation.

## Voluntary Classification Settlement Program

The [Voluntary Classification Settlement Program \(VCSP\)](#) is an optional program that provides taxpayers with an opportunity to reclassify their workers as employees for future tax periods for employment tax purposes with partial relief from federal employment taxes for eligible taxpayers that agree to prospectively treat their workers (or a class or group of workers) as employees. Taxpayers must meet certain eligibility requirements, apply by filing [Form 8952, Application for Voluntary Classification Settlement Program](#), and enter into a closing agreement with the IRS.

## Who is self-employed?

Generally, someone is self-employed if any of the following apply to them.

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able to claim the [home office deduction](#) if they use part of a home for business.

## What about the gig economy?

[The gig economy](#) – also called sharing economy or access economy—is activity where people earn income providing on-demand work, services or goods. Gig economy income must be reported on a tax return, even if the income is: from part-time, temporary or side work; not reported on a Form 1099-K, 1099-MISC, W-2 or other income statement; or paid in any form, including cash, property, goods or virtual currency.

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