



Hiring Team Members the Smart Way

Hiring team members can feel exciting—and a little intimidating. Whether you're hiring someone locally or abroad, it's essential to understand the difference between an **employee** and an **independent contractor**, and which IRS forms go with each.

This guide breaks it all down so you can stay compliant, reduce your risk, and feel confident as you grow.

Contractor vs. Employee: What's the difference?

The IRS **cares a lot** about how you classify workers. It affects how taxes are handled, whether you provide benefits, and what kind of paperwork you need to file.

	Independent Contractor	Employee
Control	They decide <i>how</i> they work	You control <i>how</i> they work
Schedule	They set their own hours	You set the schedule
Tools/Training	They use their own tools	You provide tools/training
Tax Withholding	No—contractor pays their own taxes	Yes—you withhold/pay taxes
Paperwork You Collect	W-9 (US) or W-8BEN (non-US)	W-4
Form You Issue	1099-NEC	W-2

! Important: Misclassifying an employee as a contractor to avoid payroll taxes can result in fines, penalties, and back taxes.

Still not sure? Use the [IRS's 20-factor test](#), or file [Form SS-8](#) to request a determination. Or just ask us and we are happy to help!



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What forms do you need?

For U.S. Citizens/Residents:

- W-9 – You collect this from **contractors** to get their legal name and taxpayer ID.
- W-4 – Your **employees** fill this out when hired to determine their tax withholding.
- 1099-NEC – You send this to **contractors** you paid \$600 or more in a year.
- W-2 – You send this to **employees**, showing total wages and tax withholdings.

For Non-U.S. Contractors:

- W-8BEN – You collect this instead of a W-9. It confirms they're a foreign individual or entity and may help avoid U.S. tax withholding on certain payments.

Example: If you hire a virtual assistant in the Philippines, **they should fill out W-8BEN**, not W-9. You don't issue them a 1099-NEC unless they're a U.S. person.

How to onboard your new team members

For Contractors:

- ✓ Ask them to complete a W-9 (if U.S.-based) or W-8BEN (if foreign).
- ✓ Pay them as agreed (track payments).
- ✓ Issue a 1099-NEC if you paid them \$600+ during the year (U.S.-based only).
- ✗ No tax withholding—contractors handle their own.

For Employees:


- ✓ Have them fill out a W-4 before their first paycheck.
- ✓ Set up payroll to handle income tax, Social Security, Medicare, etc.
- ✓ Send them a W-2 by January 31 each year.
- ✓ You may also need to register with your state and **pay unemployment or workers' compensation insurance.**



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How long do you keep the paperwork?

- W-9s & W-8BENs (Contractors): Keep for **at least 4 years after the last payment.**
- W-4s (Employees): Keep for **at least 4 years after the employee leaves** or the form is replaced.

 **Tip:** Store forms securely (digitally or in a locked cabinet), and back them up. You may need them if audited.

Year-End Wrap-Up Checklist

For each person you paid:

- ☒ Send 1099-NEC to each eligible contractor (U.S.-based, \$600+)
- ☒ Send W-2 to each employee
- ☒ File copies with the IRS
- ☒ Keep everything in one place for tax season

Using accounting software like Gusto, QuickBooks, or Wave can make this much easier.

Common Mistakes to Avoid

- ☒ Not collecting a W-9, W-8BEN, or W-4 at the start of employment
- ☒ Misclassifying employees as contractors
- ☒ Forgetting to issue 1099s or W-2s on time
- ☒ Paying people under the table—this creates serious legal and tax risks

Need Help?

Hiring team members and the corresponding requirements and paperwork can be overwhelming—and that's why we're here. If you want support getting your hiring setup right (or fixing past mistakes), let's connect!

 [Book a Discovery Call](#) or  [Send a Message](#)

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