



## Trade Partner: Courtesy Information

### 1099, W-2, and the IRS

When a person is paid on the form W-2, the employer automatically withholds and pays all of the necessary employee income taxes as required by the IRS. These taxes include: Federal Income Tax, State Income Tax, and FICA (Social Security and Medicare). In addition, the employer will pay all of the necessary employer taxes. These taxes include: FICA (Social Security and Medicare), FUTA (Federal Unemployment Tax), and SUI (State Unemployment Tax).

When a person is paid on the form, 1099-misc, all money earned by the individual is paid on an untaxed basis. It is then the responsibility of the individual to file and pay the appropriate taxes. The IRS has found that when an individual is responsible for paying his/her own taxes, etc., many times it is not as much as it would be when the employer is paying the correct tax amount. This is primarily due to workers taking full advantage of any potential business deductions so that they pay less in taxes. Hence, the IRS is cracking down on misclassifications and imposing some hefty penalties. In today's staffing industry, it is imperative that workers are properly classified and that proper taxes are paid to the correct government entities.

RVE LLC. can and does administer contracts for 1099 subcontractors. However, be forewarned, the IRS places strict qualification guidelines on the types of jobs that are truly performed by independent contractors and the types of people (sole proprietors) who are true independent contractors. Unfortunately, not only is the IRS strict, but their guidelines are sometimes vague. Therefore, if a Client asks us to administer a subcontractor, we must evaluate the project and the proposed independent contractor in accordance with IRS guidelines to ensure that the arrangement is a true "independent contractor" relationship.

For more information relative to the IRS' guidelines for independent contractors, consult IRS Form SS8

In addition to IRS guidelines, there are two risk factors that come into play when contemplating whether we will administer a 1099 subcontract. Specifically, the Subcontractor will be required to sign a subcontract agreement with RVE LLC that passes all of our liability under our contract with the Client through to the Subcontractor. Additionally, the Subcontractor will be required to provide us with a certificate of insurance that names RVE LLC as an additional insured and waives any right of subrogation that the Subcontractor's insurance company might have against us. The amount of insurance that we require is generally equal to the amount required by our contract with the Client, but we may, in our sole discretion, make exceptions under limited circumstances.

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