



When deciding whether to classify a team member as an employee or a contractor there is one core question you should be asking yourself to determine if you're in compliance with Internal Revenue Service standards.

Are you controlling the work... or buying the result?

That distinction drives everything.

THE 3-PART IRS FRAMEWORK

1. Behavioral Control:

Who directs the work?

Employee: You define how the work gets done (process, schedule, tools, training).

Contractor: They define how the work gets done; you care about the outcome.

2. Financial Control:

Who owns the economics?

Employee: Paid consistently; low financial risk; tools and expenses often covered.

Contractor: Invests in their own business; can profit or lose; often paid per project.

3. Relationship Structure:

What does this actually look like in practice?

Employee: Ongoing role; benefits; integral to your core business.

Contractor: Project-based; no benefits; supplemental or specialized work.

WHAT LEADERS OFTEN GET WRONG

“We have a contract, so they’re a contractor.”

Contracts don’t override reality.

“They prefer to be a contractor.”

Preference doesn’t matter to the IRS.

“They work remotely, so they’re a contractor.”

Location is irrelevant. Control is everything.



Leadership Insight

Misclassification is rarely a legal mistake. It’s a leadership clarity issue.

If you need:

- Consistency
- Accountability
- Cultural alignment
- Ongoing availability

...you’re not looking for a contractor. You’re looking for an employee.

Bottom Line

If you’re managing the person, classify them as an employee.

If you’re buying a deliverable, they’re likely a contractor.

EMPLOYEE VS. CONTRACTOR: DECISION CHECKLIST

Use this as a quick, practical filter before you engage someone.

Step 1: Control Check (Most Important)

- Do you set their schedule?
- Do you tell them how to do the work?
- Do you provide training or require specific processes?

If YES to most → Employee

Step 2: Financial Independence Check

- Do they use their own tools/equipment?
- Can they make a profit or loss?
- Do they work with other clients?
- Are they paid by project vs. hourly/salary?

If YES to most → Contractor

Step 3: Relationship Reality Check

- Is this an ongoing, indefinite role?
- Is their work central to your business operations?
- Do you expect long-term loyalty and availability?
- Are you offering (or planning to offer) benefits?

If YES to most → Employee

Step 4: The “Gut Truth” Question

Ask yourself: **If this person disappeared tomorrow, would I need to replace the *person* or just the *work*?**

- Replace the **person** → Employee
- Replace the **work** → Contractor

Step 5: Risk Flag Triggers

If you see any of these, slow down:

- They work only for you, full-time
- You’ve “converted” a former employee into a contractor doing the same job
- You require set hours or attendance at internal meetings
- They are presented externally as part of your team

These are strong indicators of **employee status**

To frame it simply:

- **Contractors = capability you rent**
- **Employees = capability you build**

Confusing the two creates legal risk, cultural confusion, and performance inconsistency.



(207) 373-9301
solutions@strategictalentmgmt.com
www.strategictalentmgmt.com