INDEPENDENT CONTRACTOR CHECKLIST

OVERVIEW

Hiring independent contractors gives your business flexibility but one mistake could cost you. Misclassifying a contractor as an employee can lead to IRS penalties, lawsuits, and back taxes.

This guide walks you through **what to do (and what NOT to do**) from contract setup to compliance and tax filing.

Objectives



Clarify Classification Rules
Help business owners understand the legal difference between an independent contractor and an employee to avoid misclassification risks.



Guide Proper Practices
Provide step-by-step guidance on what to do (and what to avoid) when hiring and managing independent contractors.



Ensure Compliance & Documentation
Support small businesses in maintaining proper records, meeting IRS requirements, and protecting themselves from audits or penalties.

Independent Contractor Checklist

Contract Development

- [ ] Review IRS criteria, Independent Contractor or Employee, to ensure an independent contractor (IC) relationship.
- [ ] Use Form SS-8 for IRS determination of independent contractor status if unclear and the determination cannot be made by the business.
- [ ] Develop a written agreement with an assigned specific scope of work for a specific duration.
- [ ] Do not have a contractor complete an employee application.
- [ ] Require the contractor to supply his or her own workers' compensation insurance.
- [ ] Require the contractor to work off company premises and/or require the contractor to supply his or her own equipment and tools.
- [ ] Require payment to be rendered upon completion of a certain task or job. Do not pay by the hour, week or month unless a flat fee is agreed to be paid at regular intervals.
- [ ] Do not pay contractor expenses. Contractors cover their own costs, which should be built into their agreed rate. All expenses must be outlined upfront, no surprises. This supports their financial independence from your business.
- [ ] Contractors must submit an invoice to receive payment. No invoice, no payment, this reinforces the independent nature of the business relationship.
- [ ] Do not provide continuing education training. The company may provide training specific to job or company procedures.
- [ ] Do not have contractors perform similar work of employees or perform routine work.
- [ ] Contractor work should not be close to core business operations and therefore considered employee-type work.
- [ ] Require documentation demonstrating an independent contractor relationship, such as copy of business or professional license, copy of insurance certificates, copies of the independent contractor's advertising, and copy of the contractor's business card and stationery.

Contract Signed; Contractor Work to Begin

- [ ] Require the contractor complete Form W-9, Request for Taxpayer Identification Number and Certification. This form can be used to request the correct name and taxpayer identification number, or TIN, of the worker. A TIN may be either a Social Security number (SSN) or an employer identification number (EIN).
- [ ] Do not complete an I-9.
- [ ] Do not pay contractors from a payroll account.
- [ ] Do not provide an employee handbook.
- [ ] Do not allow independent contractors to enroll in any company-sponsored benefit plans; do not pay contractors for company holidays.

- [ ] Do not invite or permit contractors to attend company parties or special events.
- [ ] Do not issue company business cards, employee ID badges or facility keys to contractors.
- [ ] Restrict contractor participation in projects or department meetings.
- [ ] Do not give independent contractors authority for hiring, disciplinary action or termination decisions.
- [ ] Do not require the contractor to work “full time” or have set hours. Contractors should control when and how they work.
- [ ] Do not conduct performance evaluations similar to employee evaluations. Companies should require deadlines and results and can require contractors to follow job and company rules.

Contract Work in Progress (1 month to end of contract)

- [ ] Periodically review contract and assigned scope of work to ensure contractor is working within the contract scope and maintaining independent contractor status.
- [ ] Confirm with company contact(s) that the contractor has not been provided additional duties or benefits outside the scope of the contract or anything else that would jeopardize independent contractor status.
- [ ] Retain records of all transactions with the contractor, such as the contractor’s invoices for billing.

Annually

- [ ] Review IRS criteria to ensure company is maintaining an independent contractor relationship.
- [ ] Confirm W-9 is on record and retained for four years.
- [ ] Send 1099-MISC each year for any contractor (e.g., attorney, accountant, consultant) paid $600 or more for services provided during the year.
- [ ] One copy provided to contractor by January 31 of the year following payment.
- [ ] One copy to IRS by February 28, unless filing electronically through use of the Filing Information
- [ ] Returns Electronically (FIRE system), in which case the form must be filed by March 31.
- [ ] Review W-9 Record Retention Schedule to purge unneeded files.

Four years

- [ ] Retain W-9 for four years for future reference in case of any questions from the worker or the IRS.
- [ ] Destroy unneeded records that have met the four-year retention requirement unless employer is involved in a dispute that has not yet been reconciled.

Review IRS guidelines for independent: *https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee*

Why this matters:

Misclassifying contractors is one of the **most common HR and tax violations**. This checklist helps you stay compliant, protect your business, and work confidently with contractors.

Need help reviewing your contractor agreements or compliance process? We're here to support you. Reach out for a consultation.

Scan to visit OUR website

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CONTRACTOR CHECKLIST