Linkun Foundation

EDUCATE · EQUIP · ELEVATE

FREE TOOLKIT · SMALL BUSINESS OWNERS

Hiring Toolkit: W-2, 1099, or Do It Yourself

Decide whether to keep doing the work yourself, hire a contractor, or hire an employee. Compare the true cost, avoid misclassification, and onboard the right way, with California notes.

- Hire when the work you're doing costs you more than paying someone else, in money or in growth you're missing.
- An employee usually costs more than their wage once payroll taxes, insurance, and time off are added. Use the worksheet to see your real number.
- Whether someone is a contractor depends on how the work is done, not on what you both agree to call it. California applies a stricter test than most states.
- Before day one, have the paperwork ready: W-4 and I-9 for employees, W-9 and a written agreement for contractors.

Fill it in on screen (any PDF reader) or print it. Prefer a version that tailors itself to your business? Use the interactive toolkit at linkunfoundation.org/resources/toolkits/hiring.

What's inside

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How to use the business-type notes: sections marked “For wholesalers”, “For storefronts” and so on apply only to that kind of business. Read the general guidance, then the notes that fit you.

SECTION 01

Are you ready to hire?

Check the statements that are true for you

- [ ] I'm turning down work or delivering late because I don't have time.
- [ ] I spend 10 or more hours a week on tasks someone else could do.
- [ ] The work is steady enough to keep someone busy for at least 3 months.
- [ ] My cash forecast shows I can cover the cost for 3 months even if sales dip.
- [ ] I can explain the job in one page: what gets done, how often, and how I'll know it's done well.
- [ ] I have time to train and check in on a new person for the first few weeks.

If you checked four or more, you're likely ready. If cash is the missing piece, start with a contractor for a defined project, or run the new hire calculator to see how long a hire takes to pay for itself.

SECTION 02

Do it yourself, contractor, or employee?

	Do it yourself	1099 contractor	W-2 employee
Best for	Small or occasional tasks, or while cash is tight	Specialized projects with a clear result (a website, bookkeeping cleanup, a design)	Ongoing work you direct: set hours, your methods, part of daily operations
Who controls how the work is done	You	The contractor decides how, when, and where	You do
Your cost beyond pay	Your time and missed growth	Usually none; they handle their own taxes and tools	Payroll taxes, workers' compensation insurance, unemployment insurance, often benefits and paid sick leave
Paperwork	None	Form W-9, written agreement, Form 1099-NEC at year end	Forms W-4 and I-9, state new-hire report, payroll registration, wage statements
Main risk	Burnout, a ceiling on growth	Misclassification penalties if they're really working like an employee	Fixed cost when sales dip

THE CONTROL QUESTION

If you decide when, where, and how the work is done, provide the tools, and the work is a regular part of what your business does, the person is very likely an employee, whatever the contract says.

SECTION 03

Classify workers correctly

The IRS looks at three areas to decide whether someone is an employee or a contractor: **behavioral control** (do you direct how the work is done?), **financial control** (do they have their own business, tools, other clients, and a chance of profit or loss?), and the **relationship** (is it ongoing, are there benefits, is the work central to your business?).

FOR BUSINESSES IN CALIFORNIA

California uses the stricter **ABC test** for most work. A worker is presumed to be an employee unless all three are true:

- **A:** They are free from your control and direction in doing the work.
- **B:** The work is outside the usual course of your business. (A bakery hiring a web designer passes; a bakery hiring a "contract" baker usually does not.)
- **C:** They are customarily engaged in an independently established trade or business of the same kind (their own business, other clients, their own marketing).

There are exceptions for some professions and business-to-business arrangements. When in doubt, ask a California employment attorney or your local SBDC.

Red flags that a "contractor" may really be an employee

- [ ] You set their schedule or require them to be on site at fixed times.
- [ ] They do the same work as your employees, or work that is your core business.
- [ ] You provide their tools, equipment, uniform, or training on how to do the job.
- [ ] They work only for you, with no other clients.
- [ ] The arrangement is open-ended, with no defined project or end date.
- [ ] You pay them by the hour on a regular schedule, like payroll.

Misclassification can mean back payroll taxes, penalties, and wage claims. If several red flags apply, talk to a professional before you continue.

SECTION 04

Know the true cost

True monthly cost of an employee

Enter your numbers. Payroll tax and insurance percentages vary by state, industry, and payroll size; ask your payroll provider or insurance agent for your rates. The defaults in the hints are only starting points.

Hourly wage $ per hour

Hours per week Hours

Employer payroll taxes % of wages (federal FICA alone is 7.65%; state taxes add more)

Workers' compensation insurance % of wages (varies widely by job)

Benefits per month $ (health, retirement, etc.)

Other monthly costs $ (payroll service, equipment, phone)

= Monthly wages

= Taxes and insurance per month

= True monthly cost

= True cost per hour worked

Will the hire pay for itself?

Hours per month this frees up for you Hours

What an hour of your time earns when you spend it selling or serving clients $ per hour

New revenue the hire lets you take on per month $

True monthly cost (from above) $

= Monthly value gained

= Monthly value minus cost

SECTION 05

Working with a 1099 contractor

- [ ] Confirm they run their own business: other clients, their own tools, a website or business license.
- [ ] Collect a signed Form W-9 before the first payment.
- [ ] Sign a written agreement: the project, deliverables, deadline, price, payment terms, who owns the work, and confidentiality.
- [ ] Pay by invoice for results, not hourly payroll on your schedule.
- [ ] Keep records of every payment.
- [ ] File Form 1099-NEC by January 31 for contractors paid above the IRS reporting threshold for the year (confirm the current amount with your tax preparer).
- [ ] In California, also check whether you must report the contractor to the state (EDD Form DE 542).

SECTION 06

Hiring your first W-2 employee

- [ ] Get an Employer Identification Number (EIN) from the IRS if you don't have one.
- [ ] Register with your state for payroll taxes (in California, with the EDD).
- [ ] Buy workers' compensation insurance before the first day of work. It is required for employees in California.
- [ ] Choose a payroll provider or software to calculate withholding and file payroll taxes.
- [ ] Write a job description and an offer letter with pay, schedule, and start date.
- [ ] Collect Form W-4 and complete Form I-9: the employee fills in Section 1 by their first day, and you review their documents and complete Section 2 within 3 business days.
- [ ] Report the new hire to your state within 20 days (California: Form DE 34).
- [ ] Hang required federal and state labor law posters where employees can see them.
- [ ] Know the minimum wage for your city and state. Some cities, including several in Southern California, set a higher rate than the state.
- [ ] Set up paid sick leave, overtime, and meal and rest break rules that meet your state's requirements.

The first employee onboarding checklist walks through the first week.

SECTION 07

Notes for your type of business

FOR STOREFRONTS AND FOOD BUSINESSES

Shift-based work in your shop is almost always employee work. Plan schedules around your busiest hours, and budget for overtime and break rules.

FOR BUSINESSES THAT WORK AT CUSTOMERS' HOMES OR SITES

Helpers who ride along and follow your process are usually employees. Workers' compensation matters most here because injuries happen on the job site. Check your vehicle insurance if employees drive for you.

FOR ONLINE SELLERS

Packing, shipping, and customer service on a set schedule are usually employee work. Specialist tasks like photography, ads management, or web development are often good contractor projects.

FOR SERVICE BUSINESSES

If you bring on someone to deliver the same service you sell (another stylist, tutor, or cleaner), California's ABC test usually makes them an employee. Booth or chair rental arrangements have their own rules; get advice before you set one up.

FOR SOLO OWNERS

Your first hire is the biggest step. Many owners start with a virtual assistant or bookkeeper on a contract basis to buy back time, then hire an employee once the role is clear and steady.

SECTION 08

Use AI to plan your hire

AI PROMPT Should I hire, and who?

Act as an experienced small business advisor. Help me decide whether to keep doing a task myself, hire a 1099 contractor, or hire a W-2 employee.
My business: {industry} in {location}. Model: {model}. Channels: {channel}. Team: {size}. In business: {stage}.
Ask me what work I need help with, how many hours a week, whether I'll direct how and when it's done, my monthly revenue and expenses, and my cash on hand.
Then compare the three options in a table (cost, control, risk, paperwork), apply the IRS common-law test and, if I'm in California, the ABC test, and recommend one option with your reasoning. Remind me which points to confirm with an employment attorney or payroll provider.

Replace the [brackets] with your details, then paste into ChatGPT, Claude, Gemini, Copilot or any AI assistant.

AI PROMPT Write a job description

Write a clear, friendly job description for a role at my {industry} business in {location}. Team size: {size}.
Ask me for the job title, the main tasks, the schedule, the pay range, and must-have skills.
Include: a two-sentence intro about the business, responsibilities (5 to 7 bullets), what success looks like after 90 days, requirements, pay and schedule, and how to apply. Use plain language and avoid requirements that aren't truly needed.

Replace the [brackets] with your details, then paste into ChatGPT, Claude, Gemini, Copilot or any AI assistant.

AI PROMPT Draft a contractor project scope

Help me write a project scope to attach to an independent contractor agreement for my {industry} business.
Ask me what I need done, the deadline, the budget, and how I'll judge the result.
Write the deliverables, timeline, payment schedule, revision limits, and who owns the finished work. Keep the contractor in control of how they do the work. Note that I should have a qualified professional review the final agreement.

Replace the [brackets] with your details, then paste into ChatGPT, Claude, Gemini, Copilot or any AI assistant.

Frequently asked questions

What is the difference between a W-2 employee and a 1099 contractor?

A W-2 employee works under your direction, and you withhold their taxes, pay employer payroll taxes, and carry workers' compensation. A 1099 contractor runs their own business, controls how the work is done, and pays their own taxes. The label depends on how the work is actually done, not on the contract.

How much does an employee really cost beyond their wage?

Employer payroll taxes, workers' compensation insurance, and any benefits are added on top of wages. Federal FICA alone is 7.65% of wages, and state unemployment, insurance, and benefits add more. Use the worksheet in this toolkit with your own rates.

What is California's ABC test?

It's the test California uses to decide most worker classification questions. A worker is an employee unless they are free from your control, do work outside your usual business, and run an independently established business of the same kind. All three must be true.

What paperwork do I need to hire my first employee?

An EIN, state payroll registration, workers' compensation insurance, Form W-4, Form I-9, a state new-hire report, required labor law posters, and a payroll system. In California, the new-hire report is Form DE 34 and is due within 20 days.

Do I need to send a 1099 to every contractor?

You file Form 1099-NEC for contractors you pay above the IRS reporting threshold in a year, generally by January 31. Collect a Form W-9 before the first payment so you have their tax details, and confirm the current threshold with your tax preparer.

FREE 1:1 COACHING

Talk it through with a mentor

Bring this toolkit, your numbers, and your questions. Book a free session:
https://calendar.app.google/Y9th1oVrDYsY7tbk8

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