

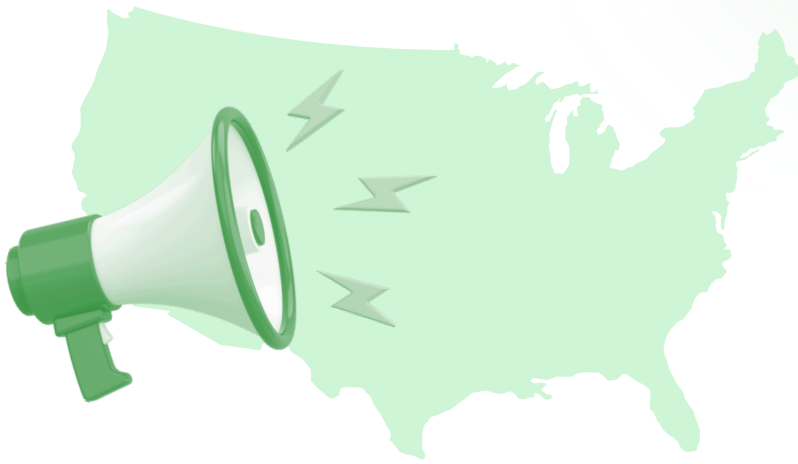
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Ultimate Guide to Hiring U.S. Contractors

Step-by-Step Guide to Contractor
Hiring and Management

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Best Practices for Hiring U.S. Contractors

Hiring contractors based in the U.S. offers numerous advantages, including access to a diverse and highly skilled workforce. This approach allows companies to save money by aligning workforce size with business needs, bringing contractors on board as needed rather than committing to full-time employee salaries.

However, before making your first U.S. contractor hire, it's essential to understand relevant laws and regulations, as well as best practices for a smooth onboarding experience.

What are the benefits of hiring a contractor versus an employee?

Contractors can be cost-effective for short-term projects, as you don't need to provide benefits like health insurance or paid leave. They also offer flexibility and can bring specialized skills to your business.

What's the difference between a contractor and an employee?

It's very important to make sure you understand how a contractor differs from an employee. Misclassification can lead to potential fines, and you may owe back taxes to the Internal Revenue System (IRS).

The IRS uses a three-factor test — behavioral control, financial control, and type of relationship — to determine a worker's classification.

Here's a quick overview of the differences between contractors and employees.

Contractors	Employees
Decide when and where they work, and use their own equipment	Need to adhere to schedules/work locations dictated by the employer
Are paid according to the terms of client contracts	Are paid on an hourly or salaried basis
Do not receive benefits, and file and pay self-employment taxes	Use company equipment, receive benefits, and don't file payroll taxes

Consult the IRS guidelines or a tax professional to ensure you're properly classifying your hires.

What documentation is required to hire a U.S. contractor?

Contractors will need to complete a W-9 form and provide their:

- Name or business name if they are “doing business as” (DBA)
- Address
- Taxpayer Identification Number (TIN)
- Social Security Number (SSN) if the contractor is working as an individual, not a business
- Employer Identification Number (EIN) if the contractor is acting as a business entity

The W-9 should be kept on file for future reference and tax reporting purposes.

What are the reporting requirements for U.S. contractor payments?

Businesses use the W-9 form to complete the 1099-NEC form, which reports any income above \$600 earned by someone who’s not an employee. That’s why contractors are often referred to as 1099 workers.

It’s important to keep detailed records of all payments made to contractors, and ensure accurate and timely tax filing to avoid IRS penalties.

Remofirst files the 1099-NEC form for U.S. contractors hired through our platform.



What are the tax implications of hiring a U.S. contractor?

Companies don't need to withhold taxes, such as FICA (Federal Insurance Contributions Act) or income taxes. Contractors are responsible for making their own tax payments directly to the IRS.

How do I handle taxes for foreign contractors?

This depends on where your company is based, and the nationality of the contractor hired. For example, U.S. companies hiring international contractors will need the contractor to complete Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting.

A tax professional can provide guidance on withholding and reporting requirements for hiring international contractors.

Form W-8BEN certifies the contractor's foreign status and may allow them to claim benefits under a tax treaty between their country and the U.S.

Case study 1: Marketing agency hiring a graphic designer contractor

Background

A marketing agency, CreativeMinds, needed a graphic designer to create promotional materials for a client's campaign. They decided to hire a freelance graphic designer for a two-month contract.

Steps taken

Classification and documentation

CreativeMinds verified the graphic designer's status as an independent contractor using the IRS's guidelines.

The agency asked the contractor to use Remofirst's Contractor Product to complete the W-9 form and provide other necessary tax information.

CreativeMinds then completed an identity verification for the contractor with Remofirst's Contractor Product.

Contract agreement

An agreement was prepared detailing the project scope, including specific design tasks, deadlines, payment structure, and intellectual property rights.

The agreement included a confidentiality clause to protect the client's sensitive information.

Quality assurance and feedback

Regular reviews were conducted between the agency and the graphic designer to ensure the work met quality standards and aligned with the campaign's objectives.

Constructive feedback was provided throughout the project to maintain quality and address any issues.

Payment and reporting

Payments were processed upon the completion of defined project phases, and invoices were submitted by the contractor on Remofirst's Contractor Product.

Remofirst filed a 1099-NEC form with the IRS at the end of the year to report all payments made to the contractor.

Outcome

The campaign was successfully completed on time, and the promotional materials received positive feedback from the client. CreativeMinds' structured approach, including a clear contract and compliance with tax regulations, facilitated a smooth and productive working relationship with the contractor.





How do I ensure compliance with labor laws when hiring U.S. contractors?

In addition to complying with federal laws, such as obtaining a completed W-9 form from the contractor, you'll need to adhere to any state-specific regulations.

For example, in California a worker must pass the ABC test to be considered a contractor. To pass the test, the worker must be:

- Free from the direction or control of the hiring organization
- Performing work outside the scope of the company's typical business needs
- Customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the contract work being performed

Other states that rely on the ABC test, or an even stricter version, include Georgia, Massachusetts, New Jersey, and Utah.

Consulting with a legal expert can help avoid potential legal issues when hiring U.S. contractors.

4 Common pitfalls to avoid when hiring contractors

01

FAILING TO PROPERLY
CLASSIFY WORKERS

02

NEGLECTING TO DRAFT
COMPREHENSIVE
CONTRACTS

03

OVERLOOKING THE
IMPORTANCE OF CLEAR
COMMUNICATION

04

IGNORING STATE-
SPECIFIC LABOR LAWS

What should be included in a contractor agreement?

A standard contractor agreement should include:

- Scope of the work to be performed
- Contract duration
- Deadlines, which can be both short-term and long-term
- Payment and billing terms
- Confidentiality clauses
- Termination and dispute resolution conditions

Intellectual property (IP) clauses should also be included in the contract to specify that any IP created during the contract is owned by the business, not the contractor.

A comprehensive well-written contract helps ensure everyone is on the same page regarding expectations, and can help prevent disputes down the road.

How do I handle confidential information with contractors?

Including non-disclosure agreements (NDAs) in contracts helps ensure contractors will understand and handle confidential information appropriately.



What are the insurance requirements for contractors?

Contractors should have their own insurance coverage, including policies such as general liability insurance and professional liability insurance. Verify the contractor's coverage before onboarding them to protect your business from potential claims.

How do I handle invoicing and payments for contractors?

You'll want to establish a clear invoicing process, with set payment terms, and include it in the contractor agreement. For example, the contract could specify that the contractor submit an invoice at the end of each month, and that payment is due upon receipt.

Be sure to promptly pay your contractor to maintain a good working relationship.

Use Remofirst's Contractor Product to track payments and manage finances efficiently.

How do I find reliable U.S. contractors?

Create a detailed description of the project, any required skills (such as programming language), and expected project duration. Post the job on trusted employment sites, such as LinkedIn or Indeed. You can also ask employees and contractors you've previously worked with for a referral. This can help you find a qualified candidate that has essentially been pre-vetted by someone in your network.

During the interview process, while reviewing contractors' portfolios, and when contacting their references, be sure to confirm your potential contractor hire has all of the skills and experience needed for your project.



Create detailed job descriptions



Use reputable job platforms



Ask for referrals



Review portfolios



Check references

Case study 2: Technology startup hiring a web developer contractor

Background

TechInnovate, a tech startup based in San Francisco, needed to develop a new feature for its software product. The company decided to hire an experienced web developer on a contract basis to create and deliver the completed feature within three months.

Steps taken

Classification and documentation

TechInnovate first confirmed that the web developer would be classified correctly as an independent contractor by evaluating the nature of the work using the IRS's three-factor test as well as the ABC test, since the business is based in California.

The startup asked the developer to complete a W-9 form through Remofirst's Contractor Product to obtain their TIN and other relevant information.

Contract agreement

A detailed contractor agreement was drafted, outlining the scope of work, payment terms, deliverables, deadlines, intellectual property rights, and confidentiality clauses.

Both parties signed the agreement, ensuring mutual understanding and agreement to the terms.



Quality assurance and feedback

Regular check-ins and updates were held to monitor progress and address any questions or issues promptly.

A project management tool was utilized in order to track milestones and deliverables.

Payment and reporting

Payments were made based on agreed-upon milestones, and the developer submitted invoices on Remofirst's Contractor platform as per the contract terms.

At the end of the year, Remofirst filed a 1099-NEC form with the IRS reporting the total payments made, and provided a copy to the contractor.

Outcome

The project was completed on time and met all the required specifications. TechInnovate's clear communication, proper documentation, and adherence to IRS regulations ensured a successful and compliant contractor engagement.



What are the best practices for onboarding U.S. contractors?

First, obtain the contractor's:

- Contact information, including phone number, address, and email address
- Know Your Customer (KYC) details
- Bank information
- Completed W-9 form with their TIN

Next, provide a thorough orientation, including an overview of the project, expectations, and processes. Introduce the contractor to the team members they'll be working with and document any processes you want the contractor to follow when interacting with your team.

Ensure the contractor has access to any necessary resources and company systems they need to perform their work, such as Jira or Slack.

How do I manage contractor work schedules?

Short answer: you have limited oversight of a contractor's schedule. Since they aren't employees, contractors have the freedom to set their own schedule. If you try to exert too much control over their schedule you could run the risk of the contractor being classified as an employee.

How do I evaluate a contractor's performance and work quality?

Set your contractor up for success by providing clear expectations and timelines for deliverables in the contract.

Regular check-ins allow you to review the work in progress and offer guidance as needed. If any quality issues arise, be sure to document your observations and any feedback that was provided to maintain a record of the contractor's performance.

Using project management tools, such as Jira or Asana, can help you track the project's progress, and determine if the contractor appears on schedule to deliver their work on time.

What are the risks of hiring a contractor?

Some potential risks associated with hiring contractors include:

- Inconsistent quality of work
- Potential misclassification issues
- Lack of control over how the work is performed

You can mitigate these risks by thoroughly vetting potential contractors in advance, ensuring the terms and expectations are clearly laid out in contracts, and maintaining good communication.

How do I handle disputes with contractors?

Be sure to address any disputes with contractors promptly and professionally, and refer to the contract for dispute resolution procedures. If the dispute can't be resolved amicably, mediation or legal action may be necessary.

Can I terminate a contractor at any time?

Generally, yes, but termination should be in accordance with the terms outlined in the contractor agreement. Including clear termination clauses in the contract can help avoid legal disputes.

Checklist for Hiring U.S. Contractors

☐

Confirm worker classification

☐

Obtain and file necessary documentation (W-9, contracts)

☐

Verify insurance coverage

☐

Establish payment and invoicing processes

☐

Ensure compliance with federal and state labor laws

☐

Regularly communicate and provide feedback

Case study 3: Real estate firm hiring a copywriter contractor

Background

A real estate firm needed a skilled copywriter to produce engaging content for its new website. The company decided to hire a freelance copywriter for a three-month contract to create the new copy.

Steps taken

Classification and documentation

The company confirmed the copywriter's independent contractor status using the IRS's three-factor test.

A W-9 form was completed via Remofirst's Contractor Product to obtain the contractor's TIN and other relevant information.

Contract agreement

A comprehensive contract was drafted, outlining the scope of work, payment terms, deadlines, content ownership, and confidentiality clauses using Remofirst's contract creation tool.

Both parties reviewed and signed the agreement to ensure mutual understanding and protection for both the company and the contractor.

Content review and communication

The contractor created new website copy as well as a blog content calendar. Regular check-ins were held to review progress and for the client to provide feedback on both the copy and the calendar's proposed topics.

The real estate company used a collaboration tool to streamline communication with the contractor, and provide timely content approvals.

Payment and reporting

Payments were made based on the completion of content milestones, and invoices were submitted as specified in the contract through Remofirst's Contractor Product.

At the end of the year, Remofirst filed a 1099-NEC form with the IRS and provided a copy to the contractor.

Outcome

Thanks to timely content approvals by the client through the collaboration tool, the project was completed ahead of schedule. The real estate business was so pleased with the quality of the work that they created a new contract and hired the copywriter to write the blog posts outlined in the content calendar.



How Remofirst's Contractor Product stacks up against the competition: Remofirst vs. Deel

As you can see, Remofirst costs less, is easier to use, provides peace of mind with free identity checks, and assumes tax reporting obligations for the contractor.

Company	Remofirst	Deel
Price	\$25 per paid contractor	\$49 per active contractor
Simplicity	Simple and streamlined process	Overcomplicated process with many options
Contractor checks	Free identity and address checks	Paid background checks
Tax responsibility (as the payer)	On Remofirst	On registered company



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Remofirst's Contractor Product makes it easy for local and international companies to hire U.S. contractors.

Businesses can easily add new contractors to their account, verify the contractor's identity, and set up payment terms. It's fast, simple, and streamlined.

Sign up for Remofirst's Contractor Product today to begin onboarding, managing, and paying contractors in the U.S. — and 150+ other countries.