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**1099-NEC**

CORRECTED (if checked)

Business Company  
1234 Long Street  
Bigtown, US State, 12345

Nonemployee Compensation  
123-45-6789

1 Nonemployee compensation  
\$ 12,345.00

2 Federal income tax withheld  
\$ 1,234.56

3 State income tax withheld  
\$ 12,345.00

**W-2 Wage and Tax Statement 2020**

202022

1 Employer's name, address, and ZIP code  
ABC Employer  
123 Main Street  
Washington, DC 12345

2 Employee's name, address, and ZIP code  
John B. Employee  
456 Elm Street  
Philadelphia, PA 12345

3 Wages, tips, and other compensation  
\$ 12,345.00

4 Federal income tax withheld  
\$ 1,234.56

5 Social Security wages  
\$ 12,345.00

6 Social Security tax withheld  
\$ 750.00

7 Medicare wages and tips  
\$ 12,345.00

8 Medicare tax withheld  
\$ 350.00

# W-2 or 1099

## What is the difference?

### W-2 Employee

- A W-2 employee is paid from the business's payroll and the company dictates the terms of employment, such as hours and days worked.
- The employee will complete a W-4 and the employer will distribute a W-2 to the employee for income tax filing purposes.
- The W-2 will include all wages paid to the employee and show the amount of taxes withheld for local, federal and state requirements as well as social security and medicare taxes.

**W-4 Employee's Withholding Certificate**

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Step 1: Personal information

Step 2: Multiple withholdings

Step 3: Complete Step 2 if ONLY if they apply to you otherwise skip to Step 5

Step 4: Marital status

Step 5: Complete Step 5-8E on Form W-4 for only ONE of these jobs

### 1099 Employee

- A 1099 employee is technically not an employee, but is considered to be an independent contractor by the IRS. This means that, unlike a W-2 employee, the business does not dictate certain terms of work for this particular worker.
- A 1099 form is filled out by the business and distributed to both the contractor and the IRS at the end of the year. The 1099 will contain a total of all money paid to the contractor during that period.
- A 1099 does not include any withholdings since the business is not required to calculate or withhold any local, state, federal, social security or medicare taxes.
- Another important distinction is that businesses are not responsible for unemployment insurance with 1099 independent contractors.



## The key distinction lies in employment status and tax responsibilities

- Independent contractors manage their own taxes, while W-2 employees have taxes automatically deducted by their employers
- An independent contractor is usually free to work on their own schedule as long as tasks are completed. W-2 employees usually maintain regular hours as set out by the employer.

#### Pay stub (hourly)

SMITH AND COMPANY, INC. 123 Street Street, Southtown, CA, 98765			
EMPLOYEE	SOCIAL SECURITY NO.	PAY RATE	PAY PERIOD
Johnson, Bob	8888-888-8888	18.00 Regular 27.00 Overtime	10/01 to 10/13/24
EARNINGS	HOURS	AMOUNT	DEDUCTIONS
Regular	40.00	720.00	Federal FICA
Overtime	5.00	135.00	FICA
			Medicare
			CA State With
			CA State Dis
			457th
<b>GROSS EARNINGS:</b>		<b>855.00</b>	
<b>TOTAL DEDUCTIONS:</b>		<b>132.24</b>	
<b>NET EARNINGS:</b>		<b>722.76</b>	
<b>SICK LEAVE:</b>		<b>0.00</b>	
			(11 HOURS AVAILABLE)

## Licensing 1099 vs W-2

- A W-2 employee is not required to get a business license because they are working under a business that should have a business license.
- A 1099 employee or subcontractor must have their own separate business license. This would include subcontractors working for a general contractor (unless your ordinance/policy states otherwise) as well as any self-employed individual not receiving a W-2 form from their employer. If a subcontractor claims to be an employee of the contractor they should be required to produce payroll records or a W-2 to substantiate their status.

## Beauty Salons, Nail Salons, Hairdressers, Barbers, Nail Technicians, Tattoo Businesses and Tattoo Artist



- Chair/booth/space rental works much like renting an office in an office building. Guidelines for chair/booth/space rentals can vary significantly, but the general notion is that the stylist/barber/nail tech/massage therapist/artist rents a chair/booth/space in an already licensed business and conducts their specialty from that rented area.
- The owner of the space that is being rented would be licensed as the “business” and would report the chair/booth/space rental revenue received by them. The chair/booth/space independent contractor would be required to obtain their own business license for the revenue received by them.
- The Town of Lexington does have a few salons/barbershops/nail salons/massage therapy businesses that have W-2 employees. In that case, the W-2 employees would not need individual business licenses. Great Clips, Sharkey’s Cuts for Kids, Hand and Stone are some businesses in the Town of Lexington who have provided documentation to prove they have W-2 employees.

- A booth-renter at a salon would also need a booth-renters license from LLR. In the City of Florence and Town of Lexington, this is often confused with a business license.
- A student should not be licensed until they receive their full certification from LLR.

## Insurance Agents

You will need to determine if the agent is an employee or an independent agent. If they receive a W-2, then they are considered an employee and you cannot license them. If they are an independent agent or broker, they would receive commission that would be reported on a 1099 and that commission would be the agent's or broker's gross income for business license purposes.



- You cannot license the insurer. MASC administers and collects the business license tax from the insurance company through the Local Revenue Services program. A few examples of these are below.



## Real Estate Agents/Brokers

Business licenses must be charged to the broker-in-charge at the place where the real estate licensee shall maintain a principal or branch office. Each individual agent should not be licensed and will be covered under the broker's business license.

Brokered transactions of real estate property in a county or municipality, other than those in which the broker-in-charge maintains a principal or branch office, create a nexus for imposition of a license fee only on gross receipts derived from transactions of property located in that county or municipality.

## Antique and Consignment Stores

For those that have antique and consignment stores, how do you handle them?

The City of Florence has several consignment shops. One of them requires all vendors to get a license because they handle their own payments. Another collects all money (sales and taxes) and then gives a percentage to the "lessor" and only the "Store" pays for a license.

There is one in the Town of Lexington and only the store has a business license. This store "buys" the clothes from individuals and then resells them. The individuals receive payment from the store within 10 days. The store handles reporting sales and paying sales tax.