

# THE BRICK WALL OF PROTECTION - FOR HOME REMODELERS -

## How to Avoid Penalties for Misclassifying 1099 Contractors

While using 1099 workers—also known as contractors—can lower costs, your home remodeling business could face steep fines. An Illinois home improvement company paid \$328,5000 in penalty fees after the state ruled 18 of its workers qualified as full-time employees.

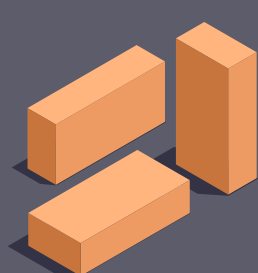
To safeguard your business, create a brick wall of protection that confirms the legal status of your contractor workers. Here are 8 essential bricks you need in your wall.

1

### Have a Written Agreement

Create a contract that explicitly defines the independent contractor relationship.

2



### Confirm Their Business has an EIN

Employer Identification Numbers are:

- Registered with the IRS
- Not their personal social security number
- Their business's tax identification number

3

### Hire Contractors as Independent Business Entities

IBE designations include:

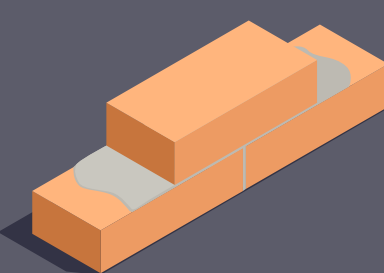
- LLC
- Partnerships
- Sole Proprietor
- Corporation

4

### Ask for Their Professional Licensing

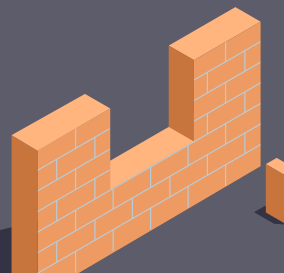
Licensing confirms the contractor is an IBE and not your employee.

5



### Pay 1099 Workers Per Job

Log each job they complete separately in your payroll to reaffirm their pay-per-job status.



6

### Prove They Work for Others

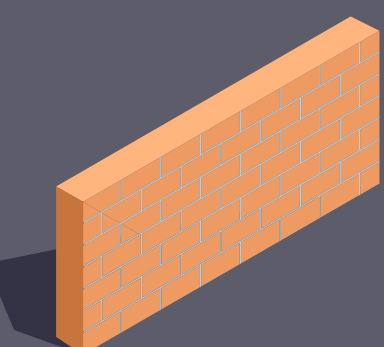
Contractors have a business website or advertise their services, even if they primarily work for you.

7

### Issue Contractors an IRS 1099 MISC Form

You must file and issue a 1099 MISC form to most independent business entities. Visit [IRS.gov](https://www.irs.gov) to confirm requirements.

8



### Confirm They Have Business Tax Returns

Filing taxes as an IBE affirms their contractor status.



## Build-Up Your Sales Numbers!



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Infographic based on:

### D.S. Berenson's Brick Wall of Protection Model

Mr. Berenson serves as managing partner of Berenson LLP. The firm represents a majority of Top 500 Remodelers. Learn more at [berensonllp.com](https://www.berensonllp.com). The Brick Wall of Protection Model was presented as part of the Prevail Webinar series.

\*Webinar URL included in the sources.

Sources: <https://www.irs.gov/forms-pubs/about-form-1099-misc> • <https://www.marketsharp.com/blog/plan-prepare-profit-home-remodeler-spring-cleaning/> • <https://smallbusiness.chron.com/costs-employee-vs-independent-contractor-1077.html>