

How to Convert a 1099 Employee to a W2 Employee

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Businesses use standard tax forms to comply with reporting requirements.

Over the course of an employee's relationship with an employer, a reclassification of tax status may be required. Often, a business will hire workers on a contract basis. If the relationship becomes regular and ongoing, the business may need to convert the worker from an independent contractor to a salaried worker. Failure to properly classify a worker as an employee and to pay required payroll taxes could subject the company to penalties. When a conversion does occur, both the employer and employee have certain responsibilities.

Things You'll Need

- 1000-Misc form
- W-2 form
- W-4 form
- Computer
- Internet Access
- Postage

Instructions

1. Review the Internal Revenue Service guidelines regarding when a worker should be treated as an employee rather than an independent contractor (see Resource 1). Identify all contractors who worked for you that will receive a 1099 at the end of the tax year and need to be converted to a W-2 under the same guidelines.
2. Notify the contractor in writing of the immediate need to convert him to an employee and what identification information you need to effect this change. Document the date and time these records were produced in the employee's file. Use a certified mail receipt with sufficient postage if you send the notice via surface mail. Keep the receipt stamped by the U.S. Postal Service in your records as your legal "proof of mailing."
3. Set up a new employee file in your employee database and record system. Classify the contractor who is being converted as either salary, salary exempt or hourly non-exempt, based on the work involved and the level of responsibility the employee will have. Use [your computer](#) and Internet access to review the U.S. Dept. of Labor guidelines based on the Fair Labor Standards Act (see Resource 2).
4. Set up a pay schedule commensurate with the type of regular employee classification the contractor will become. Establish triggers for payment of overtime after 40 hours of work a week if the new employee is to be an hourly employee.



5. Require the new employee to complete a W-4 form providing individual information and tax exemptions to be calculated when determining payroll withholding [taxes](#). Input the new employee into your employee database and timekeeping system as needed.
6. Generate a completed W-2 form for the new employee before Jan. 31 for the preceding tax year reporting wages, taxes withheld and other information required on the form. Send four copies to the employee for various tax filing requirements. Keep one copy for your own business records and send one copy to the Internal Revenue Service and state or municipal tax authorities, if applicable.

Tips & Warnings

- Once a contractor is converted to an employee, he should be treated the same as all other employees in terms of benefits and employee costs. However, you can spread the cost of such programs to the new employee to the extent you already charge other employees for these same benefits.
 - Failing to convert a 1099 contractor to an employee when you are legally required to do so can subject your business to federal penalties or prosecution for payroll tax evasion. Further, the employee could be subject to tax penalties if he earns money as a 1099 contractor and did not make sufficient estimated tax payments during the year.
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Read more: [How to Convert a 1099 to a W2 | eHow.com](http://www.ehow.com/how_7882343_convert-1099-w2.html#ixzz1rqnGUxPj)
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