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Determining Worker Status

Determining worker status is critical to administering payroll correctly. Furthermore, the way paychecks are processed depends on whether the worker is truly an employee, and if so, on whether he or she has exempt status.

Defining Worker Status

Worker status is the most critical factor in determining how a payroll professional processes a person's payroll check.

Worker status determines:

- How taxes are withheld
- Whether an employer is responsible for matching contributions
- Whether the worker is eligible for minimum wage and overtime considerations

There are three types of worker status:

- Exempt Employee
- Nonexempt Employee
- Independent Contractor

Employee or Contractor?

The employee/independent contractor distinction is important for tax withholding purposes. If it is determined that the worker is an employee, the payroll department must withhold from his or her check, the following:

- Federal Income Tax
- Social Security Tax
- Medicare Taxes

The employer must match the Social Security and Medicare amounts withheld from the employee's earnings. If the worker is an independent contractor, the employer does not deduct these taxes and does not make Social Security and Medicare contributions. However, the employer does need to report contractor earnings to the IRS.

Exempt vs. Nonexempt Employees

If a worker is classified as an employee, the next task is to classify his or her status as either exempt or nonexempt.

The terms exempt and nonexempt refer to whether the worker is subject to rules governing overtime and minimum wage law as stated in the Fair Labor Standards Act (FLSA).

Exempt employees are not subject to the provisions of the FLSA. Nonexempt employees must be paid in accordance with the minimum wage and overtime provisions of the Law.