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Employee or Contractor: what's the difference?

This month we will be discussing the unique issue in whether you have hired an employee or a contractor. Let us first discuss the process of hiring a new employee to work for your organization. When you have not had any prior employees, you should proceed by phoning Canada Revenue Agency for a payroll number. Have each employee fill out a TD1 upon commencement of their work. This will provide you with authorization for tax deductions. If your employee's tax status changes during their employment period re-file a new TD1 form.

Moreover, be sure that if you sign a contract with someone, that you are indeed hiring an outside contractor (or self employed) rather than employing someone on a contract which designates length of employment. Note that if the person does not have their own business you have to issue a T4 for both employees and contractors, and take payroll deductions.

The following are things to look at when determining the difference between an employee or outside contractor:

- The level of control the payer has over the worker;
- Whether or not the employer provides the tools and equipment;
- Whether the worker can subcontract the work or hire assistants ;
- The degree of financial risk taken by the worker;
- The degree of responsibility for investment and management held by the worker; and
- The worker's opportunity for profit.

Web Links to HR Forms and Templates

Personal Tax Credit Return (TD1):
www.cra-arc.gc.ca/E/pbg/tf/td1/README.html

Record of Employment link to explanation and form:
www.servicecanada.gc.ca/eng/ei/employers/roe_guide.shtml?slnk
www.servicecanada.gc.ca/eng/ei/publications/roeguide.pdf

Record of Employment on the WEB:
www.servicecanada.gc.ca/eng/ei/employers/roe_web.shtml#what?slnk

Fillable T4 summary:
www.cra-arc.gc.ca/E/pbg/tf/t4sum/t4sum-fi-11-08b.pdf

Fillable T4:
www.cra-arc.gc.ca/E/pbg/tf/t4_fl at/t4fl at-fi-11-06b.pdf

Payroll deductions online calculator:
www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html

Remittance Form information and link – monthly payroll deductions:
www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/pymnts/frms/menu-eng.html

Raid's Rant...

I find it concerning that some community associations hire a contractor while all signals point to the individual being an employee. For example, if the employee is working out of your office, using your equipment (computers, office supplies) and no clear distinction can be identified between this person and the rest of the staff then chances are you are misrepresenting this person. If you have any doubts you should contact Canada Revenue Agency. Make sure the contractor has their own insurance, business license, and GST number.