



is everyone now an employee in california?

MSK Client Alert

May 7, 2018

On April 30, 2018, the California Supreme Court issued its opinion in *Dynamex Operations West, Inc. v. The Superior Court of Los Angeles County*. It is likely that this case will drastically alter the landscape in California as to how workers are classified. From a tax perspective, the result could be significantly increased costs and administrative burdens for businesses operating in California.

Worker Classification.

For tax purposes, workers are divided into two categories- employees and independent contractors. The tax withholding and reporting obligations with respect to each category of worker are substantially different and significant dollars can turn on how a worker is classified.

Tax Withholding and Reporting.

If a worker is properly classified as an employee, the employer is required to withhold and remit income and employment taxes from wages or salary paid to the worker. An employer is also required to remit its share of certain employment taxes for each employee. At the beginning of the following year, an employer is required to issue IRS Form W-2 to each employee that sets forth the amount earned and the taxes withheld during the prior year.

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