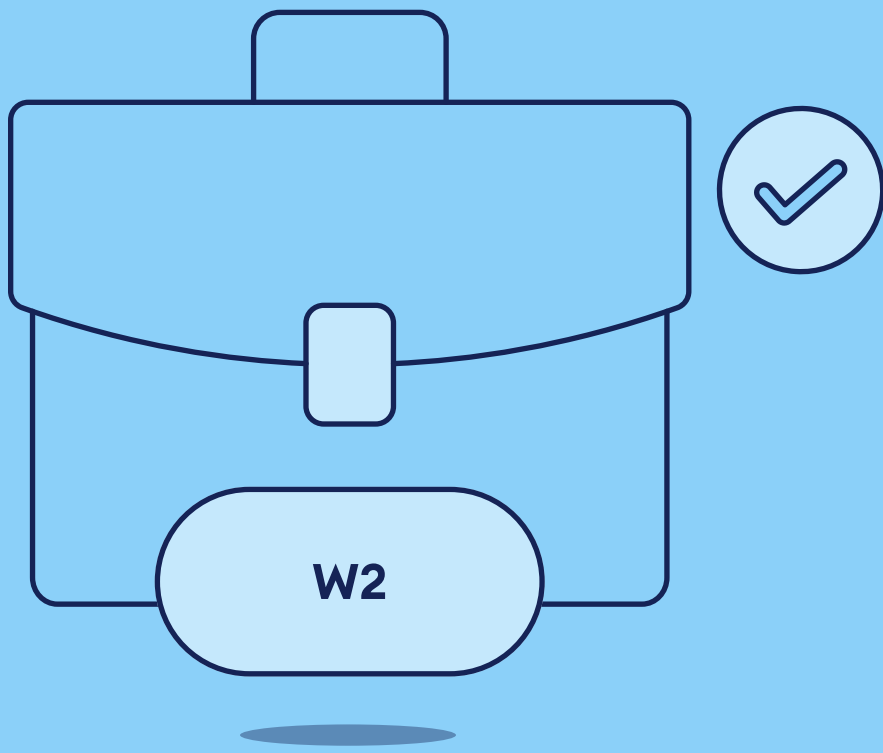


# Contract W2 Employees vs. Independent Contractors for Data Labeling

Generative AI data labeling began as very task-based work that could be crowd-sourced to independent contractors easily. As AI models have advanced – particularly with the rise of LLMs – the work has become far more sophisticated.

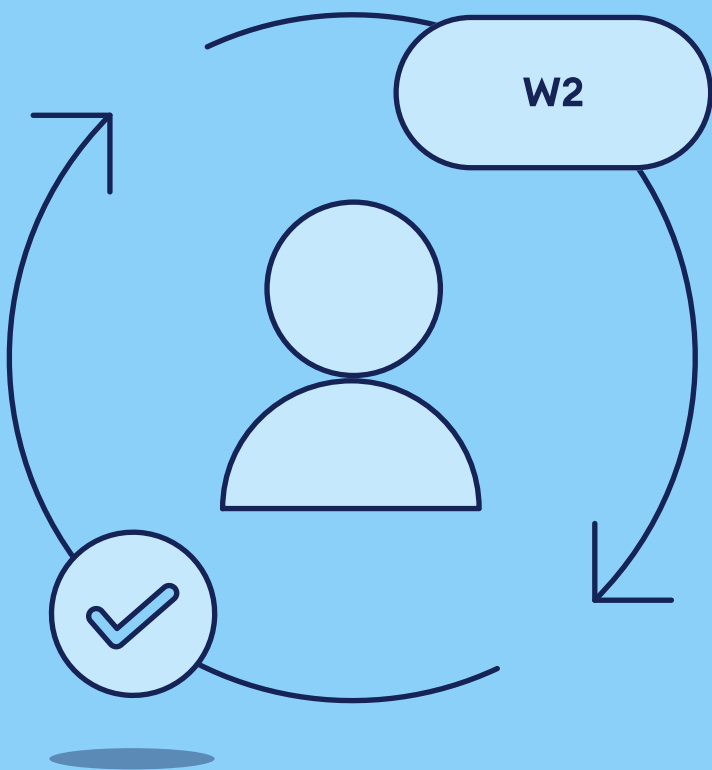
As a result, many companies are revisiting their approach to creating quality AI training data and assessing whether W2 contract employees are better suited to training work than independent contractors.



## Internal Training

With the increasing sophistication of data labeling, data labelers who receive more hands-on training create better quality data. Contract W2 employees can be trained directly without running afoul of worker classification compliance.

The limitations on how companies engage with 1099s can present challenges for organizations with dynamic or nuanced requirements.



## Retention

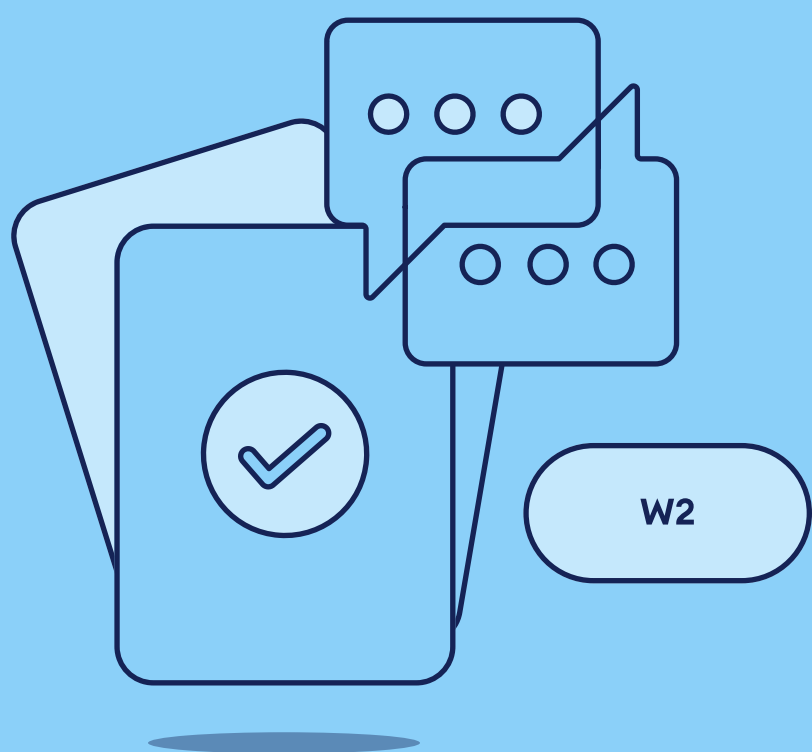
More and more, AI companies are relying on specialists with deep domain expertise to train and refine their models. Often, AI Training jobs now require advanced degrees across a range of domains. These workers are substantially harder to recruit (and cost more) so retention of strong performers is important. W2 contract employment results in better retention rates than 1099 work on average.



## Data Security & Privacy

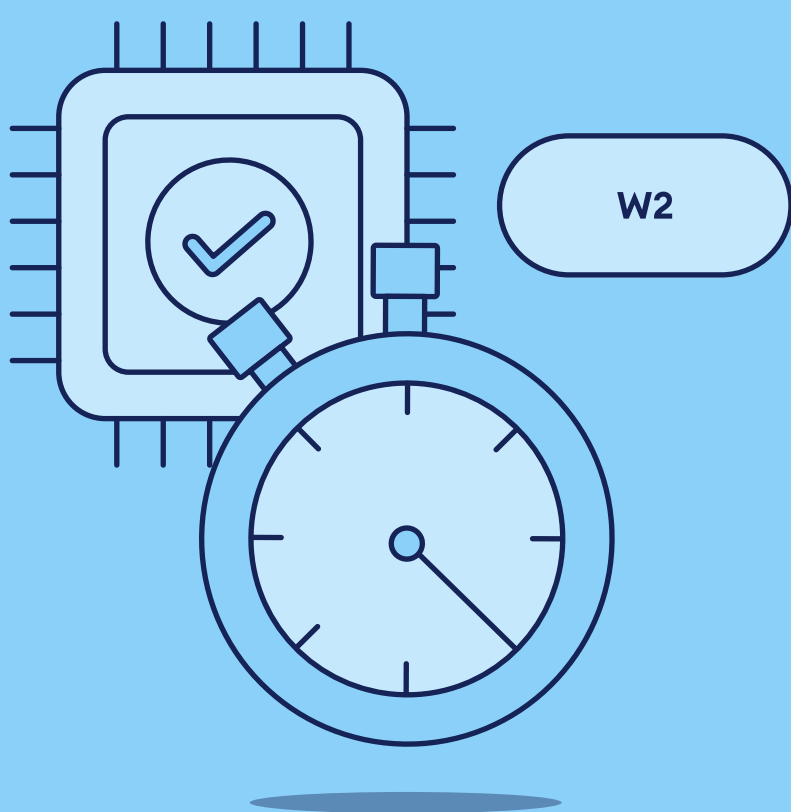
In general, W2 contract employees work exclusively for the client organization, use company-provided equipment, work onsite, sign non-disclosure agreements and similar, all of which reduce the client organization’s exposure to risk.

Independent contractors normally provide services for multiple clients simultaneously, use their own equipment, and determine how, where, and when the work is done for themselves. This doesn’t make independent contracting unsafe, but it can create more exposure compared to the relative security of W2 employment.



## Engagement and Performance Management

Employee engagement is an important consideration in ensuring productivity and accuracy. Studies show that engaged employees who receive feedback on their performance do better work. W2 contract employment allows for this to a degree that can create compliance challenges with 1099s.



## Time Management

While independent contractors set their own schedules and work independently, employees can be directed more precisely. This control is particularly beneficial when dealing with the dynamic scope of data labeling tasks, which often require quick pivots and priority shifts.