

Independent Contractor or Employee?

So you think you can “save money” by utilizing an independent contractor vs. hiring an employee. Well, not entirely. Knowing the distinction between the two will be beneficial in determining which option will be most cost effective for your business.

What's the Difference?

Below are some key characteristics of each classification

EMPLOYEE	INDEPENDENT CONTRACTOR
Usually works for only one employer.	May work for more than one employer.
Works the hours set by the employer.	Sets his or her own hours.
Usually works at the employer's place of business.	Works out of his or her own office, home or employer's place of business.
May receive employment benefits, such as health and disability insurance.	Does not receive employment benefits from the employer.
Works under the control and direction of the employer.	Works relatively independently.
Accomplishes tasks in the manner the employer has requested.	Has the authority to decide how to go about accomplishing tasks, and does so without the employer's input.
Tends not to incur costs in the work.	Incurs the costs associated with performing the job.
Has a general education and experience background; may receive special training from the employer in order to do the job better.	Has acquired specialized skills and education, along with an experienced background.
Receives net salary after employer has withheld income tax, Social Security and Medicare tax.	Not subject to tax or FICA withholding, but pays his or her own self-employment tax.
Will likely be eligible to receive unemployment compensation after lay off or termination.	Not eligible for unemployment compensation benefits.
Will receive worker's compensation benefits for any workplace injury.	Not eligible for worker's compensation benefits.
Generally (unless employment is "at will") can be terminated by the employer only for good cause and with notice.	Generally (unless the contract is for a specified term) can be terminated by the employer for any reason, at any time.

Remember, misclassification of an individual as an independent contractor may have a number of costly legal ramifications if the independent contractor is discovered to meet the legal definition of an employee, such as:

- Reimbursement of wages, including overtime and minimum wage
- Payment of back taxes and penalties for federal and state income taxes, Social Security, Medicare and unemployment
- Payment of any misclassified injured employees workers' compensation benefits
- Offer of employee benefits, including health insurance, retirement, etc.

While the choice is uniquely yours as a businessowner, it is certainly beneficial in examining when reviewing your overall costs.

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