

Employees or Contractors: A Quick Q&A

What is a full-time employee vs a contractor?

Actually, an employee can be full-time or part-time. A mistake many employers make is that they assume that if someone is not full-time, then they can be a contractor. This could be a very expensive mistake.

What are pros of hiring an employee?

Making someone an employee is the safe option. The employer cannot go wrong by classifying a worker as an employee. The employee is expected to focus on the employer's work, so loyalty and a long-term relationship is expected. The hourly rate is often less since the employee will receive support in terms of Social Security, health insurance, vacation and other benefits.

What are the cons of hiring an employee?

Employees are expensive to keep on board. In most cases, whether business is good or bad, the employee generally expects a paycheck and the related benefits. Making mistakes in doing payroll can produce legal liabilities. In fact, for small businesses, I recommend that they use a reliable payroll service to avoid payroll mistakes.

What are the pros of hiring a contractor?

The contractor is only brought in to do the work that is needed. When the work is done, they can be sent home. The legal liabilities can be less as they are usually not subject to coverage under Workers' Compensation, for instance. Because payroll is complex, paying contractors is much simpler since it is usually the hourly rate times hours worked or the agreed flat rate.

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What are the cons of hiring a contractor?

This is a very dangerous time to misclassify an employee as a contractor. The IRS, the Wage-Hour Division of the US Department of Labor, and the Texas Workforce Commission generally will push to have as many contractors as possible reclassified as employees. If this happens, those misclassified contractors could be entitled to benefits, including Social Security contributions, 401(k) plans and health insurance. Due to loyalty issues, there is also a greater concern that the contractor will take the ideas of the business and try to exploit them for themselves.

Is hiring an employee or contractor better for your business?

If a particular job is part of the core business of the employer, an employee is usually the better option. In this age of efficiency, many businesses contract out non-core functions. An example would be hiring a cleaning service to clean the organization's offices at off hours rather than an employee.

Is there anything else a business owner should know about hiring contractors or employees?

When in doubt, either classify the worker as an employee, or consult with a knowledgeable consultant to review the specific situation. Again, in many cases, the consultant will recommend that the worker under consideration be classified as an employee. Ignoring such advice could be costly.

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His 2018 book, The Decline of America: 100 Years of Leadership Failures, grades the leadership of each of the past 100 years of U.S. presidents (from Wilson through Obama) and offers non-partisan analysis and common-sense solutions.

He is also the author of more than a dozen peer- reviewed articles in academic journals that focus on subjects such as the Dark Web, whistleblowers, consumer protection, credit reporting, and bankruptcy. He has also written, and been quoted in, dozens of articles on a wide variety of business and employment- related topics.

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