

Everything CFOs Need to Know about Employee Misclassification

Millions of US workers have been misclassified as independent contractors, which means the employers are underpaying them and violating their employment and labor rights. This puts companies in a legal dilemma. In recent months we have seen large companies, including FedEx, Uber, and Deloitte, get hit with devastating lawsuits.

What Is Worker Misclassification?

Simply put, worker misclassification is when workers are classified as independent contractors when they should be classified as employees. The employer avoids paying unemployment insurance, health care, pension, workers' compensation, and other taxes for these workers.



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Why Is Worker Misclassification Important?



Misclassification robs workers of their rights and benefits, impacts the administration of federal and state programs, and creates unfair competition for law-abiding businesses.

Does your organization employ independent contractors, otherwise known as freelancers, temps, per diems, contractors, project workers, 1099ers, consultants, or specialists? Employers who classify their workers as independent contractors when they should be employees—whether intentionally or in error—could face fines, penalties, back taxes, and lawsuits. Current and former employees can sue their employers for owed wages, benefit package reimbursement, and more.

While it may seem simple enough to tell the difference between employees and independent contractors, clearly these recent lawsuits tell another story. These misclassification cases are good reminders that there's more to it than you might be inclined to think.

AS A CFO, YOU MUST ENSURE YOUR ORGANIZATION IS COMPLYING WITH LABOR LAWS IN ORDER TO TRULY ELIMINATE YOUR RISK AND AVOID THESE COSTLY CONSEQUENCES.

Worker misclassification occurs in all major industries. If your business gets hit with worker misclassification lawsuits, the results could be catastrophic. Your company could be forced to pay millions in a settlement. As a CFO, you need to understand the significance of worker misclassification before it's too late.

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The Growing Contingent Workforce

Today's on-demand economy has made it more prevalent than ever before for business owners to hire workers as independent contractors. This shift from a largely nine-to-five permanent workforce to a contingent workforce is convenient for both companies and workers.

While there are benefits for both sides, the contingent workforce also comes with its own risks. Most notably, worker misclassification lawsuits loom over the companies that choose to hire independent contractors without fully understanding the requirements of that classification status.

Though the labor laws haven't changed in decades regarding worker misclassification, we are seeing more aggressive enforcement in Canada and the United States in recent years. Companies that use an on-demand model are currently under intense legal scrutiny as to whether their independent contractors have been misclassified.

BUSINESS OWNERS WHO CHOOSE TO HIRE A CONTINGENT WORKFORCE MUST TACKLE THE ISSUE HEAD ON IN ORDER TO AVOID GOVERNMENT NON-COMPLIANCE AND WORKER MISCLASSIFICATION LAWSUITS.

If you do not take proactive steps to avoid these issues, your company could face harsh consequences, payments in the millions, a bad reputation, and a necessary business closure.

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HERE'S WHAT YOU NEED
TO DO TO AVOID WORKER
MISCLASSIFICATION
AND THE ASSOCIATED
CONSEQUENCES.

Know the Difference between an Employee and an Independent Contractor

Though many business owners choose to classify true employees as contractors to avoid additional costs and headaches that come with payroll and compliance, many do so because they genuinely believe that they are working within the law. That's because they're not familiar with the differences that separate employees from contractors. And although the misclassification is done innocently, these companies can still face worker misclassification penalties, fines, and lawsuits.

CFOs need to understand the government labor laws that determine which workers are employees and which are independent contractors. Only then will they be able to assess risk exposure.

 Employee	VS Independent Contractor 
Employers have the right to direct and control when and how employees work.	ICs retain control over when, how, and where they work.
Employees are entitled to minimum wage, overtime pay, vacation, sick days, holidays, leaves, etc.	ICs are not entitled to traditional employee benefits.
Employers are responsible for salary deductions, remittances, severance, etc.	Employers are not responsible for withholding, collecting, or paying the ICs taxes. They are not obligated to provide notice or severance.
Employees can be categorized as indefinite or fixed-term.	ICs are allowed to contract with other companies at the same time.

While this distinction may seem straightforward, the line between employee and self-employed independent contractor is often blurred.



Outsource Your Contingent Workforce Payroll

Most business owners do not have the knowledge and experience needed to consider all of the necessary factors that determine whether or not a worker is in fact an independent contractor.

If the thought of facing potential misclassification lawsuits worries you, don't chance it. Outsource your contingent workforce payroll to professionals who have the expertise needed to get it done right. You can offload the burden and stresses associated with this important task. It will be worth the millions in potential savings you'll receive from avoiding worker misclassification lawsuits. You won't have to pay owed back wages, overtime, expenses, or back taxes when your employees are all properly classified thanks to the help of a qualified payroll provider.



Invest in Contingent Workforce Consultation Services

To avoid class-action lawsuits, your company should consider investing in contingent workforce consultation services. Contact a specialist who can help you properly classify all of your current and future workers in order to fix classification errors early if they exist, ensure that you fully understand the differences between employees and contractors, and that ensure that you're always working within the law.



Enhance Compliance and Eliminate Misclassification Exposure

Worker misclassification is no joke. Are you 100% certain that your contractors are properly classified? How are you making sure that you are following all federal and state policies to avoid misclassification and potential lawsuits like Deloitte, FedEx, and Uber? There is a greater sense of fear in the market given the lawsuits that are happening due to contractor misclassification issues.



Mitigate Risk, Reduce Costs, And Manage Your Contingent Workforce

CONTACT US TODAY TO
FIND OUT MORE ABOUT
HOW WE CAN HELP
YOU MANAGE YOUR
CONTINGENT WORKFORCE
MORE EFFICIENTLY.

At HCMWorks, we help companies reduce their risk against contractor misclassification lawsuits. The distinction between independent contractors and employees misclassified as independent contractors is complex, but it is critical that your workers are classified correctly. If your company is operating in a less than ideal level of compliance, we can help you restructure and re-document your independent contractor relationships in order to minimize the risk of misclassification liability. We provide certainty on the classification of your contractors so you can truly avoid potential misclassification lawsuits. Invest in our contractor classification and payment solution to mitigate risk and avoid a lawsuit.

We properly classify your contractors to ensure you avoid lawsuits like what we are seeing with FedEx and Deloitte. We take the responsibility and don't simply take the employers' or contractors' word that they have the necessary credentials.

Work with us to guarantee that your contingent workforce is properly classified so you can rest assured knowing that you've eliminated all risk associated with employee misclassification.

HCMWorks is the leader in total workforce management solutions. We simplify the acquisition of independent contractors and temporary resources, optimize value with vendor management, and provide insights to your current and future contingent spend so you can make better decisions.



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