

# Hiring an Independent Contractor: What You Need to Know First



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Independent contractors can play an important role in your business. Whether you're filling a temporary gap in staffing or require additional help for a project, sometimes it makes more business sense to hire a contractor or subcontractor than a part-time or full-time employee. While there are many benefits to hiring a contractor, there are also potential risks that it's important to be aware of.

When you hire an independent contractor, follow the due diligence you would when hiring any employee. Ask for recommendations. Read reviews. Conduct interviews. Check references. Sound hiring practices are the first way to minimize risks when using contract labor.

The next key areas to examine are employee classification and insurance coverage. Here we'll detail some crucial things to consider to ensure you're covered and set you up for a safe professional contractor relationship.

## Employee Classification

While it may seem simple to determine whether someone working for you is an employee or an independent contractor, it is more complicated than many business owners realize. In addition to liability issues, employment and labor laws that cover employees do not apply to independent contractors.

Misclassification has become an increasing concern of government and regulatory agencies, and you may face hefty penalties if you classify someone as an independent contractor when they are actually an employee. The fact that there is no single standardized test to classify workers adds to potential confusion.

Worker classification tests focus on how much behavioral or financial control the employer has over the employee, as well as the general nature of the relationship between them. The common law test, economic realities test, hybrid test and IRS 20-point test are among the most common tools for classification.

To further complicate matters, some independent contractors are considered statutory employees, making them subject to the same regulations and taxation as common-law employees. Read more about classification [from the IRS here](#). Your VGM Insurance Services Account Manager can also help you with employee classification questions. It is vital to understand and determine the correct classification for a contractor before they are hired.



## Insurance Coverage

Insurance requirements for contractors vary by state and profession. Regardless, once you've selected the contractor you're ready to hire, obtain certificates of insurance. If possible, ask to be named as an additional insured on their policy to make sure both parties know which policy is responsible for what.

Liability and Workers' Compensation insurance are your primary concerns. An independent contractor with insufficient Liability insurance can make your business vulnerable to claims. And, if a contractor lacks Workers' Compensation coverage, you will likely have to pay for additional payroll on your policy at audit time.

## Contractual Agreement

The best way to ensure all parties understand the contractor relationship and expectations is to have a signed agreement in place. The agreement should clearly outline work, payment, completion date, insurance requirements, and site safety.

Your business may experience many benefits from hiring independent contractors, as long as you do so responsibly and are proactive about managing the potential risks. For more information and guidance, contact your VGM Insurance Services Account Manager or contact us today at [info@vgminsurance.com](mailto:info@vgminsurance.com) or 800-362-3363.

