



# employees and contractors: which are best for you?

## podcast episode 46 tip sheet

If you're hiring a team member, should you bring them on as an employee or an independent contractor? What's best for your bottom line? This podcast clears up cloud of confusion around employees and contractors so you can gain some insight about who to hire for your business.

### The most common team members you might hire as a virtual business are:

- Virtual Assistant (VA)
- Website Designer
- Graphic Designer
- Social Media Manager
- Copywriter
- Online Business Manager (OBM)
- Sales Team Members
- Business Manager
- Coaches
- Attorney
- Accountant
- Bookkeeper

### Can you afford to hire a team member?

The answer is...it depends. Sometimes you can't afford NOT to, but sometimes it can feel like a scary stretch. Many online entrepreneurs start with bringing a Virtual Assistant on board.

#### Here's an example:

Mia is about a year into her money coaching business, but she's starting to feel overwhelmed by wearing all of the hats in her biz. She's realizing that she can't do it all by herself. She's so used to being on top of everything that she's feeling like she's failing at running her business AND her life. Mia wants to hire a VA but is it worth it to hire someone?

## Should you hire someone as an employee or independent contractor? And what's the difference between them?

### What is the legal definition of an employee?

- Paid a salary or hourly wages
- Under the employer's direct supervision
- The employer controls how & when work is done
- The employer pays taxes & government benefits and often other benefits like retirement contributions, paid vacation, health insurance and disability benefits
- Must receive approval from the employer for time-off
- Can be "fired" and often can receive unemployment benefits

In general, the EMPLOYER – not the worker - dictates where, when or how the work should be done – and even for whom. Many employers can restrict the employee's ability to work for other clients or even prevent them from having side gigs.

Picture an organizational chart. The employer is the "boss" and the employee is the "direct report" to the boss. It looks like this:

**Employer**



**Employee**

In Mia's case, IF Mia hired a Virtual Assistant as an employee, the employee would report to Mia. Mia would determine the hours the VA works (like a 40-hour work week), how much paid or unpaid vacation time the VA receives, when and how work is to be done. The VA would be under Mia's "direction and control" (as it's called) and Mia would have to withhold taxes, Social Security, Medicare and other payments for benefits like health insurance from Mia's paycheck. If the VA wants to take a day off or go on vacation, she has to get permission in advance from Mia – she can't generally just show up one day and not the next. If Mia is unhappy with the VA's work, she'd probably go through a grievance process but at the end of the day, Mia can fire the VA and Mia would be out of a job and possibly receiving unemployment paychecks.

By contrast, the Virtual Assistant could be brought on the team as an Independent Contractor.

### What is the legal definition of an Independent Contractor?

- Self-employed, owns their own business and works for themselves
- Not under anyone's direct supervision or control
- Determines their own work hours and can work any time of day
- Decides how & when the work gets done within agreed-upon due dates
- Pays his/her own taxes & government benefits and usually don't get other benefits
- Can come and go as desired - not required to give notice about time off or vacation unless as a courtesy

Basically, Independent Contractors are freelancers. They have much autonomy over how, when, where and even with whom they work. They essentially run their own businesses, generally have their own office, team, and equipment and, usually, they can and do work with several clients – not just one. It's a "peer-to-peer" relationship like this:



You are both on the same level as equals. No one "reports" to anyone else. You both enter into a contract together to get something done. Typically, the contractor offers services and you agree to pay for those services.

Back to our example with Mia. If Mia were to hire a Virtual Assistant as a contractor, their relationship would look very different. For starters, the VA would not be required to "report" to Mia. Now, of course, Mia and the VA would talk about the services that Mia needs to have done, and how the VA will perform her services, how and when they will communicate, what kind of a record-keeping system to be organized around tasks and timelines, how payment works – and so on, but this is established jointly. Together. This isn't Mia ordering the VA around.

The VA gets to set her own business hours, work at whatever times of the day she wants (whether that's 6am in the morning or 2am at night!), go on vacation without asking anyone's permission (though giving advance notice to each other as to when they'll each be away or unavailable is always a welcome courtesy because it's often necessary for smooth business operations). VA can work on weekends or not on weekends, but she doesn't get paid overtime or any paid benefits and she can't be "fired" and collect unemployment compensation. The VA provides her own computer, phone, internet and equipment and has to keep track of paying her own taxes, but she can work for many clients at once and has complete authority, freedom, and autonomy as to how she runs her business.

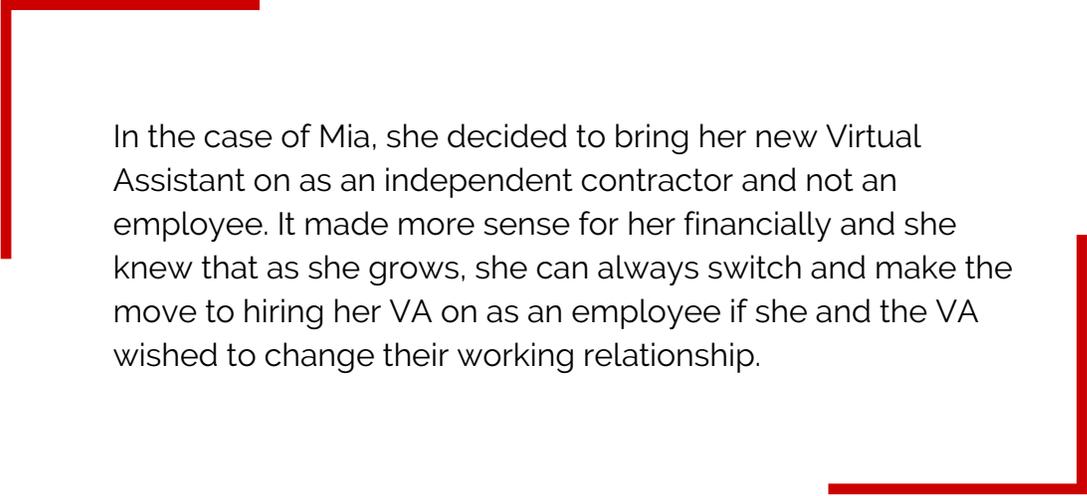
How to determine what's considered an employer-employee relationship isn't black or white – it depends on the facts of each case. (This is true with most things when it comes to the law.)

Several states are cracking down on businesses who are contracting with independent contractors but treating the contractors like employees. But, it's tricky right? So many entrepreneurs - like Virtual Assistants - LIKE having their own businesses, determining their own schedules, their own workloads and hours of operation and who they take on as clients. They don't want to report to anyone or ask permission to have time off. They WANT the freedom that comes along with running their own show.

### **So which is best for your bottom line – employees or contractors?**

On the financial front, traditionally, employees are more expensive for your pocketbook. Why? Because employers have to pay into state unemployment insurance and worker's compensation funds and choose to offer health insurance, retirement plans, paid vacation and time off and withhold the employee's income taxes and pay payroll taxes. With independent contractors, they don't have to do these things... which is why independent contractors are less expensive.

This is also why, especially when starting out, coaches and online biz owners tend to bring on team members who are independent contractors and not employees.



In the case of Mia, she decided to bring her new Virtual Assistant on as an independent contractor and not an employee. It made more sense for her financially and she knew that as she grows, she can always switch and make the move to hiring her VA on as an employee if she and the VA wished to change their working relationship.

To determine which is best for YOU and your business, be sure to work with your accountant to crunch the numbers and look at the financial situation of your business as a whole.

### **What kind of legal documents do you need to work with IC?**

If you want to bring on a team member as a contractor, you want to use an Independent Contractor Agreement. However, there are variations of Independent Contractor Agreements depending on what kind of IC you want to hire. There's no a "one size fits all" contract for everything. Just like there isn't one diet or specific way of eating for EVERYONE, or just one perfect mate for EVERYONE, or one type of doctor for EVERY health problem – well, you get the picture...the same is true for legal documents. If you want to hire a Virtual Assistant, you would be wise to use an agreement that is designed specifically for hiring Virtual Assistants to have language around protecting your intellectual property, business and trade secrets and other confidential information the VA may have access to.

If you want to hire a Website Designer or Graphic Designer, you would be wise to use agreements that are specifically designed for Website Designers or Graphic Designers because of the language concerning copyright rights that need to be transferred from the designer to you.

The same is true for other contractors like Social Media Managers, Copywriters, Online Business Managers, and so on – each contract will be written differently based on the circumstances related to your communication, confidentiality and companies.

Energetically, I align agreements with the sacral chakra, the **second chakra**, because agreements are designed to create clear boundaries around responsibilities, build trust, support relationships and emotions, in this case, among team members.



**If you need DIY legal documents like a  
DIY Agreement for Hiring a Website Designer  
or  
DIY Agreement for Hiring a Graphic Designer,  
get them at  
[lisafraley.com/diylegaltemplates](https://lisafraley.com/diylegaltemplates).**

Do you still have questions about hiring employees versus independent contractors for your business? Feel free to reach out to me at [clientlove@lisafraley.com](mailto:clientlove@lisafraley.com).

Here's to getting legally enlightened!

With Legal Love™,

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From sharing international stages with thought leaders like Kris Carr and Gabrielle Bernstein to being featured on hundreds of podcasts, webinars, radio shows and bonus calls, Lisa has made it her mission to help every single small business owner understand that the law can be accessible, empowering, loving, and even spiritual. When she's not saving the world (with Legal Love) one contract at a time, she's posting free legal tips and connecting with her tribe at [lisafraley.com](https://lisafraley.com).