

Do I Need a Contractor or Employee?

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by *Nigel Bowen* (<http://www.intuit.com.au/author/nigel-bowen/>) on Mar 22, 2016

So you've reached the point where you need at least one extra set of hands to keep up with demand for your business's products or services – congratulations! Not so long ago this would have meant taking on an employee. But with the rise of the on-demand economy (think online platforms such as Freelancer, Airtasker and 99designs), it's easier than ever to engage a contractor.

More choice when it comes to staffing solutions is a good thing. Nonetheless, it has left many small business owners confused about the pros and cons of hiring an employee compared to engaging a contractor. Here are some tips that should help clear up the confusion.

Why Hire an Employee?

You Need Someone to Work for You on an Ongoing Basis and Follow the Instructions You Give Them

While they may be fulfilling the same function for your business, there's a large legal difference between an employee and a contractor. An employee works for you, meaning you have various responsibilities towards him or her. A contractor works for themselves, meaning you have few responsibilities to them (beyond honouring the terms of the agreement you've entered into).

If you're asking someone to work regularly for your business and expecting them to follow your instructions (rather than letting them decide how to complete tasks), then the law classifies that as an employer–employee relationship. Furthermore, the authorities don't hesitate to penalise business owners attempting to game the system by classifying those who are acting as employee as contractors.

You Want Them to Hang Around

Contractors are great for one-off tasks, but there can be issues if you want them to provide services on a medium to long-term basis. They have their own businesses to run and other clients to service. That means they might not be available to do the work you want them to do when you want them to do it. They might raise their prices or they may just be difficult to communicate with, especially if they're in another time zone.

Of course, employees can quit or ask for raises. But if you're after someone to become a reliable and trusted member of your team and help grow your business, investing in an employee (<http://www.intuit.com.au/r/hiring-hr/hiring-first-employee/>) can be a smart move.

Why Hire a Contractor?

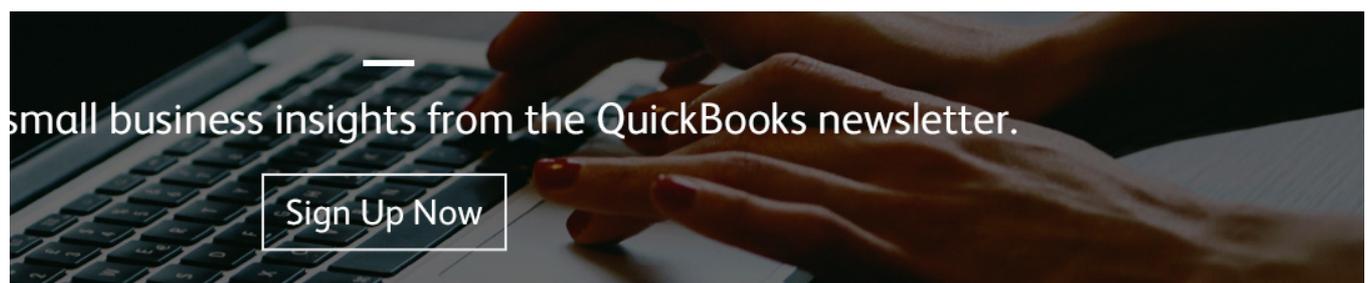
You Only Need Temporary Access to a Specific Skill Set

If you just need someone to design a business logo, it doesn't make sense to permanently hire a graphic designer who is going to be left twiddling their thumb once they've completed that task. One-off jobs are the kind you should definitely consider outsourcing to a contractor.

You're Not Sure the Good Times Will Last

Yes, the phone has been ringing off the hook for the last month. Still, you're not yet certain you need to permanently ramp up the capacity of your business. This is another situation where it makes sense to engage contractors, at least for a period of time.

You're Not Yet Ready to Assume All the Responsibilities of Being an Employer



(<http://www.intuit.com.au/r/expert-advice-straight-to-your-inbox-2/>)

As mentioned, you can't just pretend employees are contractors to get out of setting up super accounts, withholding PAYG tax, providing leave and buying a workers' compensation insurance policy. That said, especially if you're a sole trader, you may wish to organise your business so you can farm out different tasks to contractors rather than, for example, taking on a permanent assistant or office manager.

It's predicted that in the not-too-distant future most people will be contractors rather than employees labouring exclusively for one employer. But for the time being, business owners still need to be aware of the legal and practical implications of engaging a contractor as opposed to hiring an employee.



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