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- HOME
- SMALL-BUSINESS TOPICS**
- VIDEOS
- TOOLS
- Q&As
- THANK YOU!
- SPRINT SOLUTIONS CENTER

- BROWSE BY SUBJECT
- STARTING UP
  - FINANCE
  - OPERATIONS & GROWTH
  - SALES & MARKETING
  - MANAGEMENT & LEADERSHIP**
    - Hiring & Training**
    - Compensation & Benefits
    - Managing Employees
    - Leadership
    - Work-Life Balance
    - Governance & Partnerships
  - TECHNOLOGY
  - BOLD IDEAS
  - THE SMALL-BUSINESS LIFE

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## Should You Hire a Contractor or a Full-Time Employee?

By Toddi Gutner | [Business on Main](#)

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**So it's time for your business to hire. Find out the pros and cons of hiring contractors vs. full-time employees, and what pitfalls you need to avoid.**

Though many small-business owners say the U.S. economy is in better shape now than it was a year ago, making the decision to hire additional employees is never an easy one. Is it best to bring on full-time employees who can handle a range of tasks, or part-time independent contractors with flexible hours to meet your changing needs?

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Answering that question depends on a number of different factors. Perhaps

the most important is the cost-benefit of a part-time or independent contractor versus a full-time employee. Among the considerations such an analysis must take into account is the fact that independent contractors and part-timers allow small-business owners to not only save on wages, but also avoid paying benefits and state and federal payroll taxes.

"Benefits such as health care and retirement cost employers 20 to 30 percent on top of salaries," says Bill Nolan, an employment attorney with Barnes & Thornburg in Columbus, Ohio. No doubt, lower overhead means less stress to bring in new business revenue to cover costs.

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The amount of work to be done and what type of work it is are what typically inform an employer's decision to move from a part-time independent contractor to a full-time employee. Kane Jamison, founder of Content Harmony, a content marketing firm, took a methodical approach. Once he had enough income to cover his expenses, he hired contractors who could do specific tasks at an hourly rate that was lower than what he charged.

"When it gets to the point when our spend with a specific contractor type is consistently more than it would cost to get a full-timer, that's when we know it's time to hire," says Jamison. He also isn't too concerned with the possibility of work slowing down. "By using contractors and building up over time, I feel fairly certain that the work requiring a full-timer is steady and not simply a busy month or two for us," says Jamison.

It gets down to dollars and cents. "We estimate our margins prior to doing the work," says Mike Robinson, president of Permit Place, a company that provides permit-expediting services nationwide. "We always try to hit 20 percent on every job we do by knowing our company overhead, our labor and our costs of goods before we do the work, and then building those costs into every estimate that we do," says Robinson.

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### Understand laws and potential pitfalls

The new health care laws are driving small-business owners to rethink the structure of part-time versus full-time employees. Under the Patient Protection and Affordable Care Act, employees working 30 hours per week will be considered full-time and therefore must be offered employer-based health care

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coverage. If employers don't offer health care and they have 50 or more full-time employees, they'll be required to pay a \$2,000 penalty for each worker who isn't offered coverage.

In addition to the amount of work, employers also need to determine the type of work that needs to be done. Will it take a certain amount of time and require stand-alone, task-specific or project-specific skills? If so, then a part-timer or contractor will do well in this type of situation.

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"Independent contractors make sense for us [when he or she is] a local person that can do a specific task for us in a geographic area that is far away for us," says Robinson. However, he says, minimizing customer-facing interactions for independent contractors and keeping an eye on quality are at the front of his agenda.

If independent contractors make more sense for you in the foreseeable future, it is important to know and understand the [Internal Revenue Service rules](#) as to who can be considered a contractor versus an employee. "If a worker is engaged in your company's core business activities, that person is less likely to be viewed as an independent contractor, because you will likely be directing his or her activities just as you would your employees," says Nolan.

Also, beware of situations in which you classify workers as employees and then reclassify them as independent contractors without any significant change to their activities. Such actions have a high risk of alerting the IRS.

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