

Pros and Cons of Hiring an Independent Contractor

When it comes time for your business to hire a worker for a particular role, hiring an independent contractor can be an attractive option. There are some great benefits to hiring an independent contractor but these types of workers are not without their disadvantages.

In general, independent contractors will cost less than employees. For instance, if you have employees working at a physical location, the costs of overhead including rent, utilities, and equipment are your costs. Independent contractors generally use their own equipment which saves you those costs, and are often able to complete their work without taking up any of your office space. And, employees require federal and state taxes and insurance payments on their behalf, whereas independent contractors do not.

Independent contractors are not obligated to be loyal to your particular business. This particularly becomes a problem if the same contractor is hired at some point by your competitor. It would be very difficult to convince a contractor to not work for your competitors. Employees will often readily accept a clause in their contract that prohibits a second job, or working for a competitor even in the future. Also, many corporations and business have these types of clauses in their employee contracts to prevent trade secrets and other competitive advantages from being leaked to competitors.

Independent contractors are more flexible for your needs, and you may easily switch between them for your company's specific needs. Hiring and firing employees can be more complicated than independent contractors. Once the independent contractor is finished with his or her job, you may choose to work with a different independent contractor with no legal issue or stress. Employees can be fired legally on the basis of poor job performance, but this is also not without risks and stress, particularly wrongful termination lawsuits.

A problem with independent contractors is that their rates fluctuate. Since independent contractors are not required to have a maximum or minimum rate, they generally change their rates as demand for their work increases or decreases. Your budget will have to fluctuate to accommodate an unpredicted increase in your contractor's rates. Also, you may not be able to hire your independent contractor if his or her rates increase, and you may have difficulty finding another contractor with the same experience and skill level at the rate you were paying. Hiring an employee with a predetermined wage per hour prevents an unpredicted increase in payroll costs and gives you more control over your budget.

Although rates per hour might be higher with independent contractors, there are also a number of reduced payroll costs. Independent contractors will not ask for or be required to have health insurance, which is a substantial cost in the United States for employers with a company health insurance policy. The reduced cost for no benefits, and also no requirements for minimum wage or union demands (in most cases), will usually end up costing your company less per year.

So, by knowing some of these benefits and disadvantages of hiring an independent contractor, you will be better prepared to decide whether an independent contractor or employee fits your needs when you're ready for your next hire.