

Independent Contractors vs. Employees

How It Impacts Your Premium Audit



One of the biggest misconceptions about hiring subcontractors is that you can designate them as independent contractors to limit exposure and avoid paying higher premiums. This is false—state and federal laws define the relationship. Understanding the impact hiring employees or subcontractors will have on your insurance program is critical. Acuity wants to help you mitigate the risk of unexpected claims or additional premiums charged on an audit.

What is the best way to safeguard my business when using subcontractors?

We recommend hiring adequately insured subcontractors and obtaining a copy of their certificate of insurance showing both general liability and workers' compensation coverage. Collect the certificate of insurance before allowing the subcontractor to begin work on your project. Ensuring your subcontractors are adequately insured will help limit the exposure to your business in an accident involving a subcontractor and allow for proper payroll/cost assignment at premium audit time.

What are the repercussions of hiring uninsured subcontractors?

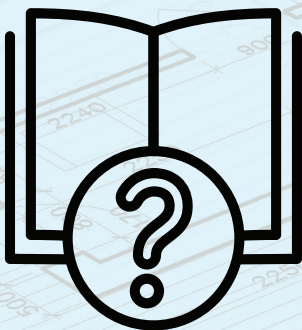
When you are hiring subcontractors, you may be legally responsible for those you pay to work for your business. If subcontractors are hired without adequate insurance, they could be considered employees for coverage and premium audit purposes. Claims can roll up to your general liability and workers' compensation policies due to a subcontractor's lack of coverage. The added exposure may increase premium costs on your policy as payments made to an uninsured subcontractor will be charged a rate based on the service or trade the subcontractor performed.

If someone is paid with a 1099, does that automatically make them an independent contractor?

No. The IRS 1099-Nonemployee Compensation form is for tax-reporting purposes. The existence of a 1099 form does not define the insurance/employment relationship, nor does it eliminate your responsibility for the work they do or disqualify them from workers' compensation eligibility. Additional criteria must be reviewed to support an independent contractor relationship based on your state or jurisdiction.

My state has a special independent contractor form. Does signing that mean a worker is exempt from workers' compensation?

Maybe. Each state defines its criteria to determine independent contractor status. Some states have workers' compensation exemption or exclusion forms that can apply to subcontractors. While these forms exist, the completion of this form may not automatically exclude them from workers' compensation coverage. You must establish that the nature of the relationship with that worker meets the independent contractor requirements for your state. Copies of the forms and additional questions may be required during the [premium audit process](#).



Where do I go for help?

If you are unsure about the status of a subcontractor or the impact on your insurance, a local Acuity-licensed insurance agent can be a valuable resource to direct questions. If further questions persist, our agency partners will contact us directly to address your specific question. Don't have an agent or authorized insurance representative? You can find one [here](#).

