

# A Global Guide to Employee Classifications

How to Protect Your Business by  
Avoiding Employee Misclassification

THOUGHT LEADERSHIP



**GLOBAL  
EXPANSION**



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# 01

## INTRODUCTION

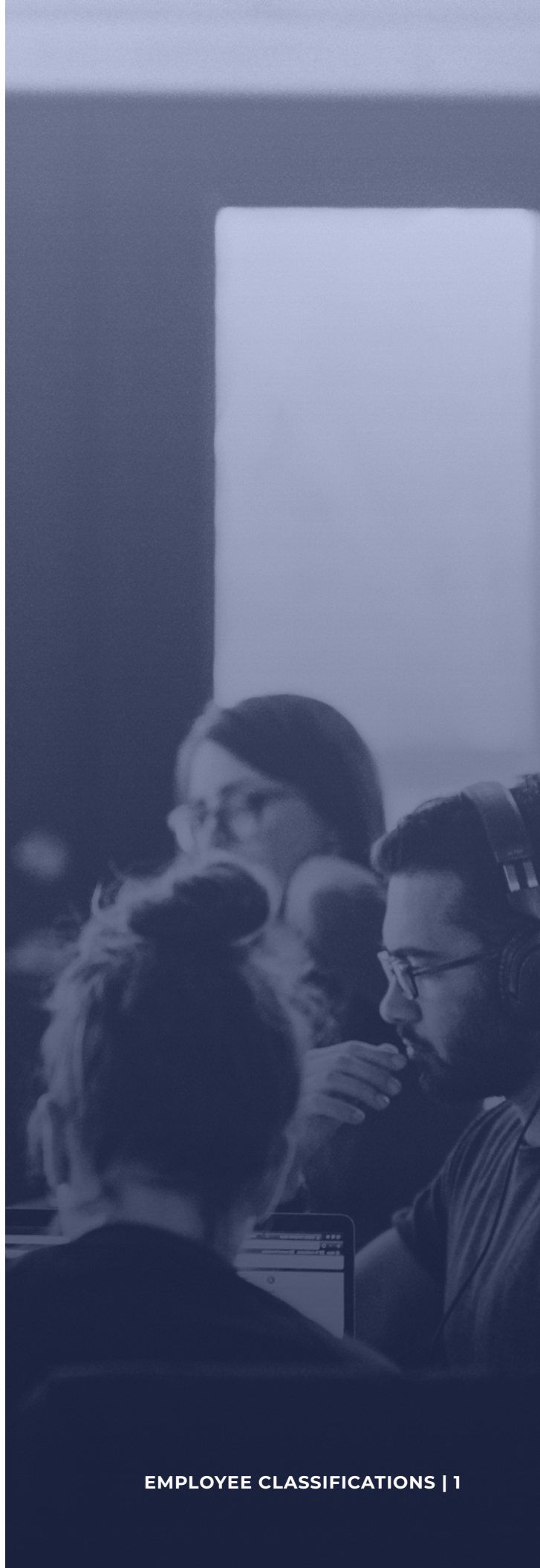
Employees are the backbone of any business. Without them, businesses can't function, grow, or serve customers. Whether you're a sole proprietor or have a team, understanding how to classify your employees is crucial. It affects their pay, benefits, and even tax responsibilities.

Different classifications, like full-time, part-time, or independent contractors, have varying implications. While full-time employees often require benefits, part-time employees might not. Independent contractors usually aren't entitled to benefits but operate under contract terms.

Misclassifying employees can lead to legal issues and financial repercussions, potentially jeopardizing your business. This guide aims to clarify employee classifications across regions like the US, Europe, Asia, and Africa.

We'll examine differences between independent contractors and salaried employees, explore their rights, and discuss the business impacts of each classification.

By understanding and correctly classifying your employees, you protect your business and its most valuable asset—your employees. Let's delve into the details and ensure your business is on the right track.

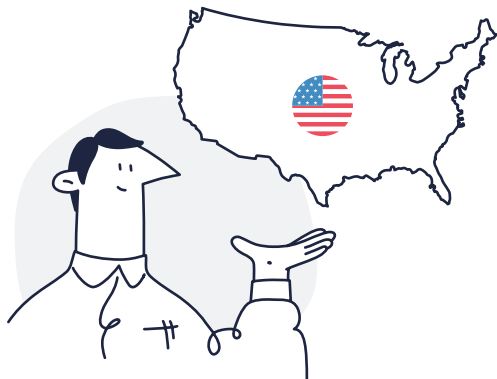


# 02

## CLASSIFICATIONS IN THE US

In the United States, the Internal Revenue Service is the agency that governs the rules and regulations between the different classifications of employees.

The IRS differentiates between employees and independent contractors, and this distinction is critical for ensuring the legal success of your business.



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## What Is an Independent Contractor in the US?

The IRS has a strict definition of an [independent contractor](#). The organization says:

***“People such as doctors, dentists, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers, or auctioneers who are in an independent trade, business, or profession in which they offer their services to the general public are generally independent contractors. However, whether these people are independent contractors or employees depends on the facts in each case.”***

From there, they go on to say that an individual can be considered an independent contractor if the ***“payer”*** (aka, employer) has ***“the right to control or direct only the result of the work and not what will be done and how it will be done.”***

This is where things get interesting. The IRS holds that a payer or employer—your business—could hire an independent contractor to provide a service, say something like web design. While you can hold the contractor accountable for the final product, you do not have a say in how they reach that final product.

The IRS then explains what they wouldn't consider to be an independent contractor:

***“You are not an independent contractor if you perform services that can be controlled by an employer (what will be done and how it will be done).”***

This essentially means that the employer holds the legal right to control every single aspect of how a service is completed or offered.

The best explanation within the IRS's definition of an independent contractor comes in this sentence:

***“If an employer-employee relationship exists (regardless of what the relationship is called), you are not an independent contractor, and your earnings are generally not subject to self-employment tax.”***

So, at face value, the difference between an independent contractor and an employee comes down to self-employment tax, and the contractor having the legal right to dictate how a service is performed. But is that all it comes down to?



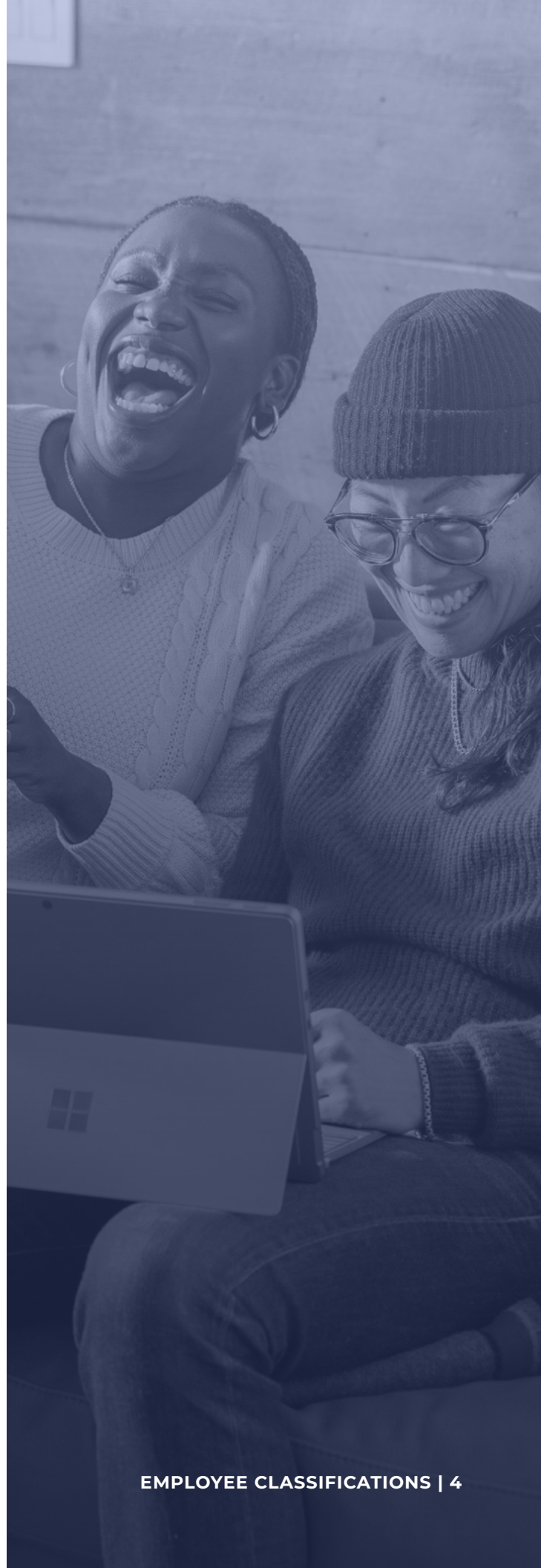
## What Does It Mean for Your Business?

Understanding the differences between employees and independent contractors is crucial, as it impacts how your organization operates.

For example, in a high-end real estate firm, salaried administrative staff and sales personnel are considered employees. As their employer, you're responsible for withholding taxes, ensuring legal rights, and providing benefits.

For specialized tasks like photography and marketing, hiring independent contractors can be cost-effective. Negotiating rates based on specific tasks saves on payroll and benefits while allowing experts to handle the work efficiently.

This arrangement benefits both your business and the independent contractor, offering flexibility and expertise.



# 03

## CLASSIFICATIONS IN EUROPE

The European Union (EU) is made up of several member states, and employment rules, regulations, laws, and classifications can differ quite a bit from country to country. However, the EU itself does maintain larger context regulations in terms of protecting [the rights of workers](#) throughout all its member states.

This comprehensive list from Lexology looks at employment law throughout 28 different countries within the EU. They say, ***“EU employment laws protect the rights of workers across the EU.”***

However, these laws often operate differently in different member states as most EU employment laws are created at the EU level and are brought into national law by each member state.

This is where law begins to shift from the central EU message. However, the areas that the EU seeks to cover include:

- ▶ Employee classifications  
(Part-Time, Full-Time, Fixed-Term, Independent Contractor)
- ▶ Discrimination Protections
- ▶ Equal Pay Rights
- ▶ Workplace Culture
- ▶ Protection of Rights
- ▶ Protection of Sensitive Information



## Where Things Change Course

Elsewhere in Europe, like Austria and France for instance, things are different.

**In Austria**, non-EU nationals must receive an employment permit, or a work permit, along with an exemption certificate or something called a “red-white-red” card. In addition, Austrian law doesn’t require a minimum wage to be paid to employees.

**In France**, workers only need to work 35 hours per week, and it is difficult to be terminated. In France, grounds for termination go far beyond conduct or performance.

**In Norway**, things are much more employee-friendly. Like Austria, there is no required minimum wage, but there are several collective bargaining associations that negotiate fair wages on behalf of their employees. In addition, employees in Norway are rarely dismissed unless there is an “objectively justified” cause relating to the undertaking of one’s duties.

**In the UK**, terminating an employee is a highly process-driven ordeal; one in which a business is typically forced to go through what seems like endless layers of bureaucracy to officially terminate an employee. Throughout this process, the grounds for termination are reviewed extensively,

which means that by the time the termination does occur, liability to businesses is ultimately kept at a minimum. In addition, the UK permits women to take a maternity leave of up to 12 months, which can also be shared with their partner.

### The EU Compared to the US

While US workers have some protections—at least in terms of discrimination, fair pay, minimum wage, and the classification criteria between independent contractors and employees—it’s clear to see that these rights and protections are severely lacking when compared to the nation-states that make up the European Union.

Maternity leave is present in the US, but it’s nowhere near as extensive as in other countries. Furthermore, spouses are rarely able to share in these benefits.

Family leave simply isn’t a guaranteed right for workers in the US, whereas it’s a given in other countries within the EU. In terms of termination, the US lags far behind and often places the employer ahead of the employee, which is essentially the opposite of the UK.

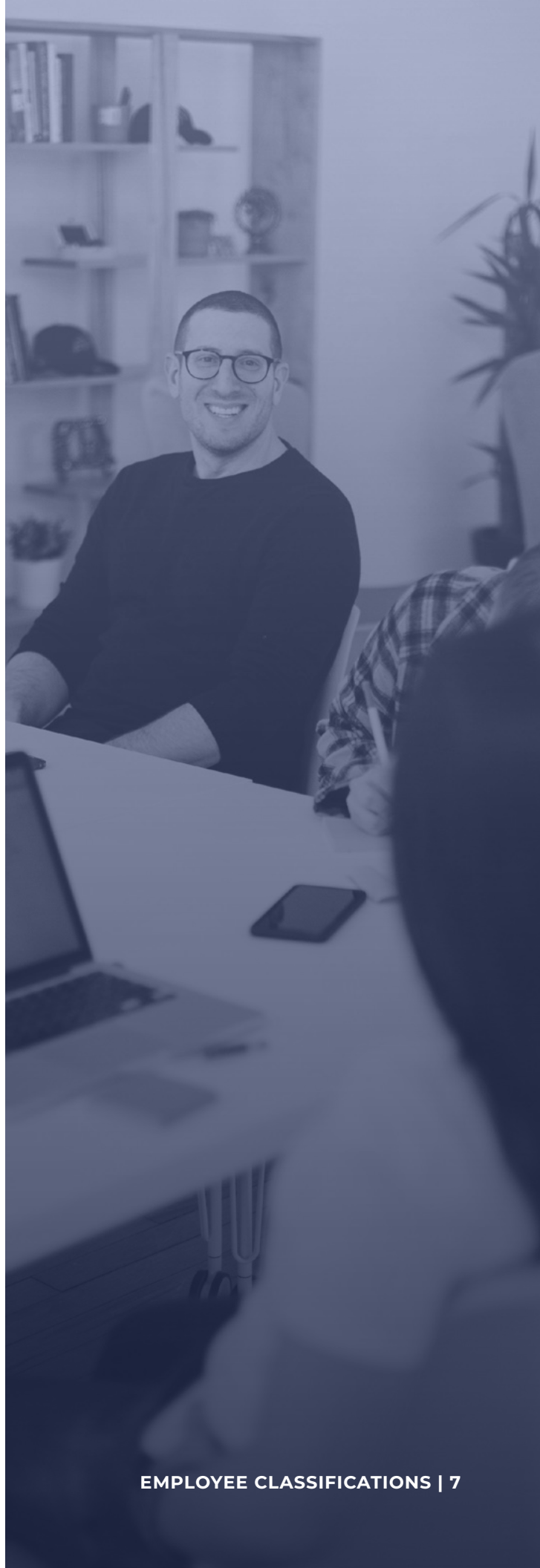
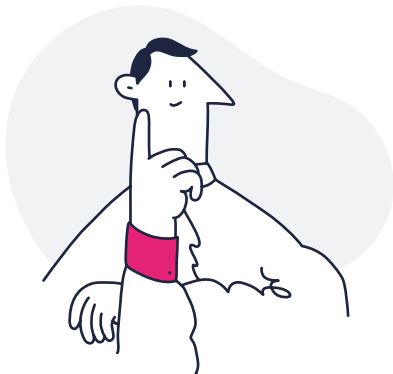


## How It Impacts Your Business

When it comes to your business, it's clear to see that things are different no matter where you go.

In the US, employee classifications are driven by the IRS. In Europe, the framework is put out by the EU, but it's up to each country to expand upon or interpret that framework in a way that suits their economy and their workforce best.

It's important to be aware of these differences because understanding what's expected of you as a business is critical to ensuring your success as a business. With that, let's move on to another region.



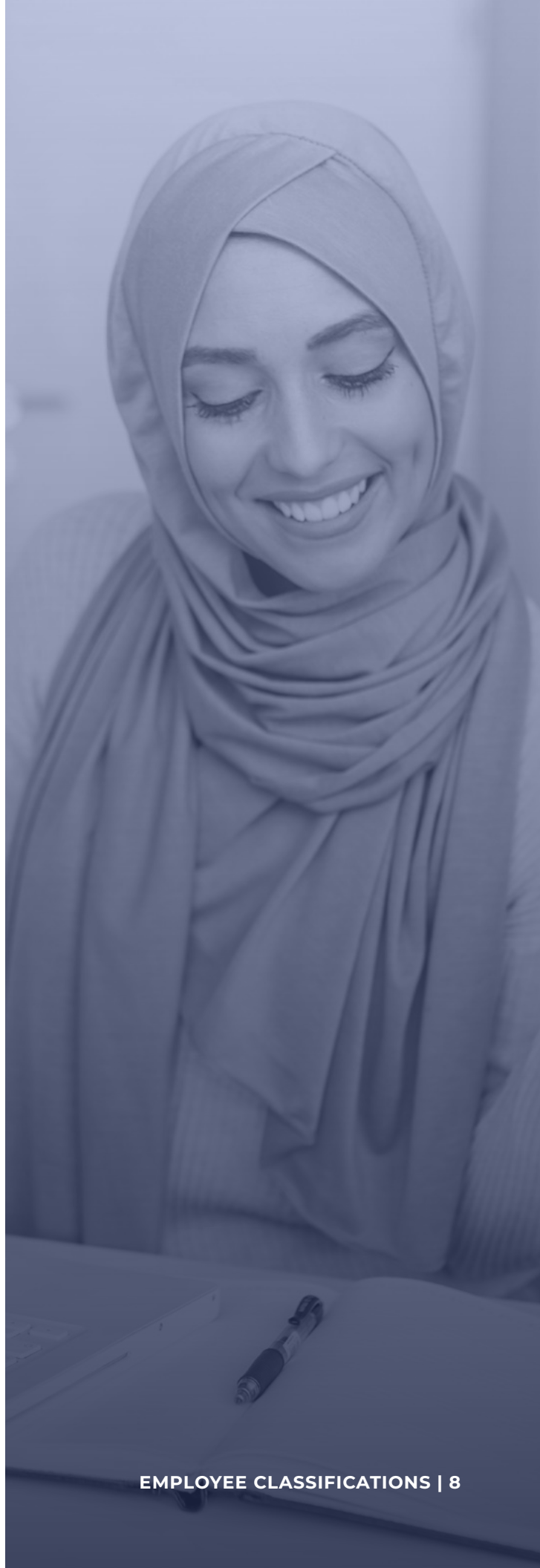
# 04

## CLASSIFICATIONS IN THE MIDDLE EAST

Outside of 2 of the world's largest workforce populations, things can get even more difficult to manage employee classifications. Throughout the Middle East, there is a mix of countries that enforce fair labor laws with comprehensive employee protections and benefits systems, while others exploit their workers for financial gain. Similarly, Asia and Africa deal with situations that mirror the Middle East.

At the end of the day, understanding the different classifications between countries in the Middle East, Asia, and Africa will change from case to case.

In this chapter, we're going to explore a few examples that should serve as miniature case studies for our purposes.



## India

Let's begin with one of the economic powerhouses of the Middle East—India. India is a country that borders Asia and the Middle East, so it can influence the Asian market as well.

But with that said, the country has a healthy economy and a strong workforce; one which they choose to protect with some important labor laws. For instance, India's private sector businesses are required to comply with several labor laws that protect the rights of workers.

### These labor laws include:

- ▶ Payments of Bonus Act
- ▶ Equal Remuneration Act
- ▶ Payment of Gratuity Act
- ▶ Employees Provident Fund
- ▶ Miscellaneous Provisions Act
- ▶ Employees' State Insurance Act
- ▶ Maternity Benefit Act

In addition, businesses in India are forced to comply with an extensive non-discrimination rule and regulations regarding the workplace. The Indian Constitution states:

***“No citizen can be discriminated against, or be ineligible for any employment or office under the state, on the grounds only of religion, race, caste, sex, descent, place of birth, or residence, or any of them.”***

Along with non-discrimination regulations, businesses are also required to provide safe working environments with basic amenities. Employees are to be given appropriate working hours, a fair wage, and the right to assured incentives.

## The UAE

Moving on to the UAE, labor laws are crucial, much like in India. With over 7 million foreign workers and 250,000 organizations, the UAE prioritizes protecting its workforce. Ratifying nine ILO conventions and being active in the Arab Labor Organization and the UN Human Rights Council, the UAE takes labor rights seriously.

Enforcing these laws is a bureaucratic system overseen by the UAE Ministry of Human Resources and Emiratization. Prospective workers must sign a standard employment offer, and the ministry conducts regular inspections to ensure compliance with labor laws.

Given their status as major economies in the Middle East, it's evident why the UAE's labor laws and classification requirements are robust and extensive.

# 05

## EMPLOYEE CLASSIFICATIONS IN ASIA

In Asia, things are similar to how employees are classified [in the US or the EU](#). Generally, countries and businesses recognize full-time classification, part-time classification, fixed-term classification, and independent contractors.

This is important, because many of today's businesses pursue other opportunities in Asia, whether it be production, manufacturing, research, distribution, etc.

Understanding how Asian countries classify their workers will be critical to ensuring compliance.

In most Asian countries, it is accepted that full-time workers work at least 35 hours per week. Many of these jobs are essentially permanent, and they come with yearly salary or hourly wages. In addition, several countries in Asia provide good protections for employees of this status.

From there, part-time employees work less than 35 hours per week in Asia. They're given just about the same protections and benefits as full-time employees, and most of them also hold permanent positions within an organization, just like their full-time counterparts.

After full-time and part-time employees, we can move into fixed-term and independent contractors. Fixed-term employees are hired only for a specific amount of time. They could be hired for certain projects, to fill a gap in a team, to cover an employee on leave, etc.

Typically, these positions are contract-based and state the duration of the engagement. While it is rare, countries like Malaysia offer some statutory protections. However, if one were to hire a fixed-term employee in South Korea, that worker wouldn't be eligible for employee protections.



## Asia's Gig Economy

Independent contractors, like elsewhere globally, aren't permanent employees. They're self-employed and lack government protections in Asia, much like in other regions.

Independent contractors negotiate their rates on their behalf and they're responsible for filing their taxes, making social contributions, and reporting their income to the appropriate government income authorities.

Asia's freelance economy is booming, and there are always millions of freelancers available for work, many of which go on to be contracted out by foreign companies and international businesses.

## Managing the Workforce Dynamic in Asia

For businesses entering or operating in Asia, hiring workers is crucial. The classification of employees—full-time, part-time, fixed-term, or independent contractor—is similar to the US and EU.

The main impact on businesses revolves around payments and relationships. While some businesses prefer independent contractors for flexibility, others value long-term relationships.

In the US, EU, and parts of Asia, employees are protected by laws, while independent contractors have fewer protections. This means businesses can easily end contracts with contractors if expectations aren't met. With employees, businesses must follow termination regulations.





# 04

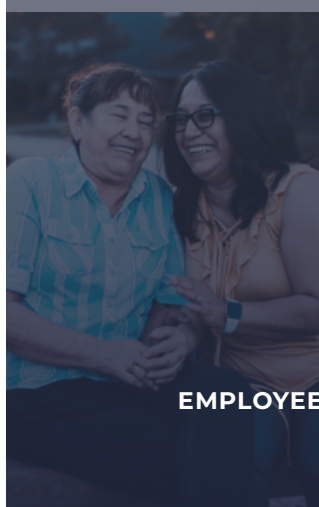
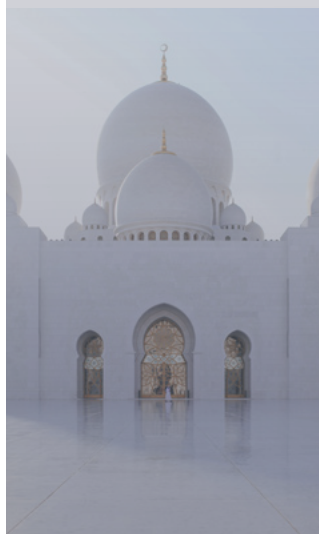
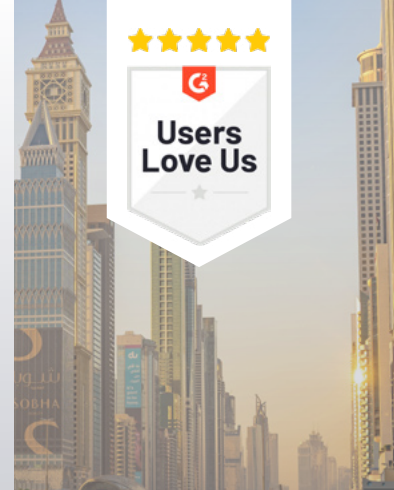
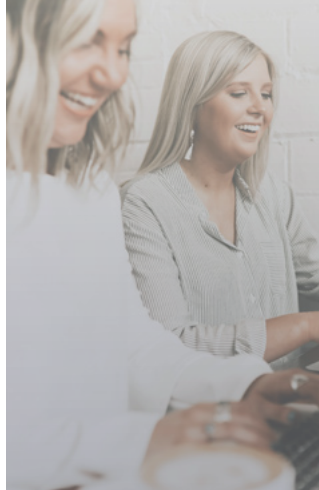
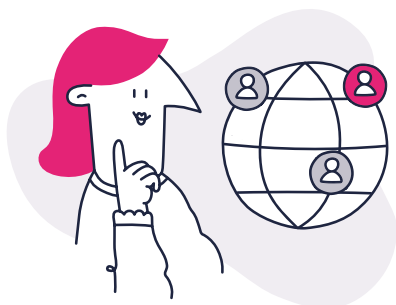
## CONCLUSION

As a business owner, you now grasp the differences between employees and independent contractors across the globe. From the US and EU to the Middle East and Asia, we've explored how countries classify and regulate employment.

With this knowledge, you're better equipped to manage the complexities of global expansion. Understanding employee classifications, rights, and employer responsibilities is crucial for successful international ventures.

Armed with this insight, you can confidently make decisions, aiming to avoid misclassifications as you expand your business globally.

**Contact us** about how we can help protect your business and global workforce.





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