



**SOCIAL IMPACT  
COMMONS**

# Wage Equity

## Contractors vs. Employees - A Matter of Social Justice



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# What is wage equity?

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Providing financial compensation that is fair, transparent, and appropriate to the work being performed, without regard to:

- Race, gender, age, or any other aspect of identity;
- Belief system, heritage, or socioeconomic group;
- Employment status, whether part-time, full-time, or independent contractor.



# Holistic considerations

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**Training & Development**

**Benefits & Amenities**

**Restorative Practices**



**Wage Equity**

**Job Classification**

**Job Variety & Mobility**



# Who decides what?

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Fiscal sponsors can create different “classes” of employees (such as sponsor staff and project staff), within legal bounds, through which benefits and other employment matters can be defined differently and compliantly from class to class.

Fiscal Sponsor	Project (w/ Sponsor Approval)	Project
Basic employment policies and practices	Salaries, job descriptions, search process	Staffing strategy, position descriptions
Final hire and fire decisions	Initial hire and fire decisions	Search pace, process, and compliance
Employee or contractor classification	Defining elements of the type of work	The need for certain work to be performed
Benefits policies, package, and options	Specific benefits offerings and elections	Benefits not subject to uniformity mandates
General evaluation policies and practices	Performance improvement process	Criteria for employee performance
General employee policies and standards	Specific employee policies and standards	Day-to-day supervision of performance



# Employee vs. Contractor

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While criteria distinguishing employees and contractors vary from state to state, there is general agreement on the basic defining characteristics. Here are a few.

<b>Project Employee</b>	<b>Project Contractor</b>
Employer controls when and how work happens	Contractor controls when and how work happens
There is a job title; uses employer website, business card	There is a no job title; uses separate website, business card
Employer furnishes space, equipment, etc. needed for work	Contractor furnishes space, equipment, etc. needed for work
Employer provides day-to-day supervision	Contractor works unsupervised
Work is compensated hourly or annually	Work is compensated by scope, deliverable, or milestone
Work is within the core/ongoing activity of the project	Work is outside of the core/ongoing activity of the project
Work is open-ended in nature	Work is bounded by deliverables or limited amount of time
Worker is not free to offer services to other clients	Worker is free to offer services to other clients
Worker is part of an identified trade or profession	Worker is not part of a trade related to the services provided

# Myths and misconceptions

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- **It's cheaper to pay someone as a contractor than as an employee.**  
*Not really. There are modest added costs, but we can't avoid the real costs: taxes.*
- **It's easier to pay someone as a contractor than as an employee.**  
*Not really. And fiscal sponsors should be there to help with employment compliance.*
- **It's not full-time work, so seems more like work for an independent contractor.**  
*Not always the case: see the previous slide on criteria.*
- **Everyone's paying people as contractors, so it must be ok.**  
*Never a good rationale: consider the the subprime mortgage crisis of 2008.*



# What's at stake?

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**There are a few reasons to get the employee-contractor distinction right.**

- **Fees and fines.** States are cracking down on contractor misclassifications, as unemployment compensation coffers run low; states want their money upfront.
- **Undue tax burdens for workers.** By mis-paying a project staffer as a contractor, you are saddling them with *more* taxes than if paid as an employee.
- **Lack of transparency concerning “take home” wages.** Paying workers as contractors can hide true tax obligations, creating hardships down the road.
- **Lack of access to benefits.** Paying workers as contractors potentially robs them of eligibility and access to benefits.



## It's a matter of social justice

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**The reason that many states are passing more stringent laws that discourage the inappropriate use of contractors is rooted in social justice and wage equity.**

- Contractors, in particular those operating under a SSN, are subject to *higher* effective tax rates than if paid as an employee with regular withholding.
- The lack of transparency concerning “take home” (net) wages can leave workers with a false sense of the true “value” of their wage.
- While traditional corporate strategy is often to withhold benefits eligibility beyond full-time (75%-80%) employees, fiscal sponsors can be paths to benefits for workers who are otherwise often excluded owing to fractional employment.

**Of course, if a worker truly qualifies as a contractor, it's right to pay them as such!**





# Let's do the numbers: payroll vs. 1099 calculator

Professional Service Provider		
Professional Services Fees	\$ 7,000	Per Month
Days worked	16	Per Month
Insurance	\$ 250	Per Month
Health insurance	\$ 1,000	Per Month
Taxes	\$ 1,750	Per Month
<b>Total</b>	<b>\$ 120,000</b>	<b>Per Year</b>
<b>Total for Employer</b>	<b>\$84,000</b>	<b>Per Year</b>
<b>Net Compensation for Contractor</b>	<b>\$48,000</b>	<b>Per Year</b>

Salaries		
Employee Salary	\$ 66,617	Annual Rate
Payroll Taxes - Employer	8%	% FTE
Paid Time Off (holiday, sick, vacation)	0	Per Year
Health Benefits - Employer Contribution	\$ 670	Per Staff/ month
Workers' Compensation Insurance	\$ 180	Per Staff/month
Additional Benefits	\$ 63	Per Staff/month
Health Benefits - Employee Contribution	\$ 67	Per Staff/month
Tax withholdings (average)	\$ 10,404	Total for a year
Additional benefits - Employee Contribution	\$ 20	Per Staff/month
<b>Total for Employer</b>	<b>\$ 82,670</b>	<b>Per Year</b>
<b>Net Compensation for Employee</b>	<b>\$55,169</b>	<b>Per Year</b>



# Good systems are essential

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**Of course, managing employees does require more robust systems for search, interviewing, payroll management, evaluation, recordkeeping etc.**

- Clear workflows for approving new salary lines, job descriptions, interview processes, onboarding, benefits management, payroll, and exit.
- Ensuring that the entire process above is carried out according to legal, equitable, inclusive, and anti-bias practices. (State, Federal, Municipal laws)
- Technology for management HR, payroll, and contract compliance is often needed, even with modest scale; integrations with (fiscal sponsor) accounting system are key!



# Part-time or uneven employment

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Fiscal sponsors often struggle with part-time (fractional) employees and challenges of unpredictable funding to cover payroll. Here are some strategies to consider.

- Concerning benefits, consider setting a low time bar for eligibility: most health insurance companies will recognize employees down to .25 FTE.
- Set a generous look-back period for calculating (including) aggregate employment commitments for benefit eligibility: up to 1 year is possible.
- Utilize “seasonal” employment and layoff provisions to allow employees to go on and off payroll, though be sure that *effective* wages remain above statutory limits.
- Set up a revolving fund for capital to bridge small gaps in cash flow that could affect fractional workers.





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