

LABOR AND EMPLOYMENT LAW

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Department of Labor Clarifies “Independent Contractor” Definition

On July 15, the U.S. Department of Labor’s (DOL) issued an administrator’s interpretation regarding the application of the Fair Labor Standards Act (FLSA) with respect to the misclassification of workers as independent contractors. The interpretation is significant from a number of standpoints:

- It states the DOL’s unequivocal opinion that “most workers are employees,” under the FLSA.
- It fully embraces the “economic realities” test as the DOL’s preferred approach to determining whether a worker is an employee or a contractor.
- It downplays the significance of an employer’s exertion of control over the tasks performed by the worker.
- It reinforces the DOL’s pattern over the last several years of aggressively examining the classification of workers as contractors.

HIGHLIGHTS

The Department of Labor (DOL) has issued an administrator’s interpretation on the misclassification of independent contractors.

The DOL adopts the “economic realities” test for evaluating workers and opines that “most workers are employees” for purposes of the FLSA.

While the DOL’s formal acceptance of the test does not dramatically alter the landscape for how employers should designate employees, it does mean that employers who use contract labor should make sure their designation corresponds to the factors identified in the DOL’s test.

The “economic realities” test the DOL adopts in the interpretation has been used – in full or in part – by several courts and regulatory agencies for years. The test includes the following factors:

1. The extent to which the work performed is an integral part of the employer’s business;
2. The worker’s opportunity for profit or loss depending on his or her managerial skill;
3. The extent of the relative investments of the employer and the worker;
4. Whether the work performed requires special skills and initiative;
5. The permanency of the relationship; and
6. The degree of control exercised or retained by the employer

While the DOL’s formal acceptance of the test does not dramatically alter the landscape for how employers should designate employees, it does mean that employers who use contract labor should make sure their designation corresponds to the factors identified in the test. Moreover, throughout the interpretation, the administrator repeatedly de-emphasizes the element of control over how tasks are to be performed. Historically, the issue of control has been regarded as one of the most important factors in assessing whether a contractor actually is an employee. Although not abandoning the issue of control by any means, the fact the Department is downplaying the issue does call into question how control will be regarded in the future and more importantly, whether other factors might surpass it in prominence.

For more information, please contact the Barnes & Thornburg Labor and Employment attorney with whom you work, or a leader of the firm’s Labor and Employment Department in the following offices:

Kenneth J. Yerkes
 Department Chair
 (317) 231-7513

John T.L. Koenig
 Atlanta
 (404) 264-4018

David B. Ritter
 Chicago
 (312) 214-4862

William A. Nolan
 Columbus
 (614) 628-1401

Peter A. Morse
 Indianapolis
 (317) 231-7794

Teresa L. Jakubowski
 Washington, D.C.
 (202) 371-6366

Mark S. Kittaka
 Fort Wayne
 (260) 425-4616

Scott J. Witlin
 Los Angeles
 (310) 284-3777

Janilyn Brouwer Daub
 South Bend
 (574) 237-1139

Robert W. Sikkell
 Grand Rapids
 (616) 742-3978

Roy A. Ginsburg
 Minneapolis
 (612) 367-8758

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