



Switching International Contractors to PEO

Why Global Companies are Making the Transition

Utilizing international contractors for one-time projects can be very effective for a business. However, switching international contractors to PEO will keep companies compliant, while also increasing their overall productivity.

How to Classify International Contractors

Just because a business decides to classify a new hire as a contractor, does not mean the contractor's home country will have the same definition. Businesses have a responsibility to understand the foreign markets they plan to expand into and how these various governments determine employment status.



Although each country around the world has unique qualifications for contractors, there are a few general guidelines companies can follow. If businesses plan to classify an international hire as a contractor, they'll need to meet some basic criteria:

- ▶ The individual is allowed to work for several companies at the same time
- ▶ The individual can control their own working status or schedule
- ▶ The individual can only work for a single company for a short period of time before moving on to a different company

With these qualifications in mind, if an individual exclusively works for one employer for an extended period, they are usually classified as an employee. This means the company will be expected to treat them as employees, with all the country regulations that status entails. Businesses will at least need to consider salary/wages, benefit programs and taxation requirements for that new hire.

Complications with International Contractors

Employment traps happen all the time. A new hire will agree to be hired on as a contractor, knowing full well their own country's employment regulations. Then after a few months of working, they can file a complaint to their government with all the evidence that they were working as a full- or part-time employee. In many cases, foreign governments will side with the employee and require the company to pay benefits, overtime, vacation/sick time, etc.

Misclassification Penalties

Even innocent mistakes quickly become costly endeavors for a business. When a company and local government have different interpretations for the classification of a worker, it can result in serious financial penalties, including:

- ▶ Back tax withholding on wages
- ▶ Benefits or any overtime paid to the worker
- ▶ Paying full-time employee benefits such as vacation, sick leave, or severance pay



Employment Contracts

Do not take shortcuts with international employment contracts. Using a general employment contract template can create legal loopholes companies may not be aware of. These in-country agreements must comply with local labor laws if businesses hope to avoid lawsuits from international contractors.

If employment contracts are done incorrectly, labor courts can rule in favor of contractors to receive withholdings and benefits. Even if you have a local agreement in place, contractors can fight for employment status. This can be a costly process, especially if you are required to pay legal fines.

Accurately paying foreign contractors requires thorough knowledge of the tax and employment laws in the countries where your business operates. These factors will weigh the heaviest when assessing a foreign country's regulations and requirements.



Switching Contractors to PEO

Moving international contractors to a PEO model creates an opportunity to maintain control of the workplace and day-to-day tasks of employees. This may require a company to reclassify all or some of their current contractors.

Some companies may be hesitant about changing contractor classifications due to the increased costs. However, these costs aren't as impactful to the bottom line as they may seem. With employees creating a more permanent solution, a PEO model ensures stability for both the employer and employee.

Benefits of Switching Contractors to PEO

- ✓ Ensure legal compliance for any country
- ✓ Maintain continuity on projects already in progress
- ✓ Attract top-tier talent with higher wages and benefit packages
- ✓ Secure long-term contracts with skilled employees
- ✓ Avoid the risk of misclassification



How to Switch International Contractors to PEO



1. Find the Right Global Growth Partner

Professional Employer Organizations specialize in helping companies test new markets and expand their global presence. During this transition process, the PEO will ensure all the proper documentation and operational steps are in compliance with local requirements. If we look at the United States as an example, contractors would need to be switched from a 1099 form to a W-2.

The PEO will then manage all the administrative tasks and eliminate that burden from the employer. This includes payroll, time and attendance, benefits, and taxes.





2. Set Clear Expectations

In most cases, international contractors are willing to make this transition considering they also benefit from the change. However, with this transition, it will be critical to establish effective communication with the contractors.

Contractors should understand why they are being classified differently and how they can benefit from this transition. Explain the benefits of employment status, including paid time off, sick leave, pension, termination rights, health insurance and maternity/paternity leave.

They will also need to understand that employers will now have more involvement than they are accustomed to. Contractors will be held accountable to key indicators and spend more time collaborating with a team.





3. Provide a Great Onboarding Experience

An excellent onboarding experience is a great way to make a positive first impression for your new international hires. This is often an indicator to the employee that their employment will be organized, structured, and supportive. The PEO provider will help with all the administrative onboarding tasks, such as employment contracts and payroll. But companies hoping to retain transitioning contractors will need to:

- ▶ Make an effort to socialize and welcome the new hire
- ▶ Outline a clear path for their professional development
- ▶ Get to know them personally, beyond talk about work



Although money and titles are important, many employees stay with a company when they are treated well and they develop relationships. International employees may not have access to office conversations or spontaneous lunches, but there are still plenty of ways to keep them involved.

About Global PEO Services

There can be a lot of risk when it comes to hiring overseas. Using Global PEO Services (GPS) can help mitigate these risks, while still giving you control. With laws and regulations frequently changing for different countries, it can be challenging to keep track of compliance, legal and tax requirements.

We manage all the legal requirements and payroll, while the business manages the international team on a day-to-day basis. For companies hoping to switch international contractors to PEO, GPS can help you stay compliant in 170+ countries.

