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Global Guide to Hiring Contractors: **EMEA**

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Introduction

It's no secret – hiring the best talent is necessary to grow your company and satisfy your customer base. Now, thanks to the mass adoption of remote work, companies have easy access to a global talent pool, enabling them to build a team of international superstars.

An independent contractor can be the most efficient route to success when looking to hire quickly abroad for a short-term solution. Essentially, an independent contractor is someone who completes a job for a company but works independently from them without being considered an employee.

Independent contractors generally specialize in niche areas and are very quick to turnover work. Additionally, they enable a company the flexibility to hire workers when they're needed most and help organizations save money.

The global hiring trend isn't limited to recruiting international employees,

however. Many companies are leveraging the specialized skills contractors offer for short-term projects. For example, G-P's internal business intelligence data found the UK to be one of the world's prominent emerging contractor hubs.

So what's the catch? Well, understanding the intricacies of hiring independent contractors to ensure that your company properly handles compliance and classification is vital. Failure to follow local laws can cost companies hefty fines, back pay, and in severe instances, even criminal charges.

Across Europe, the Middle East, and Africa (EMEA), there are many different complexities to working with independent contractors. Explore our guide to learn everything you need to know about the laws and penalties for hiring independent contractors in EMEA.

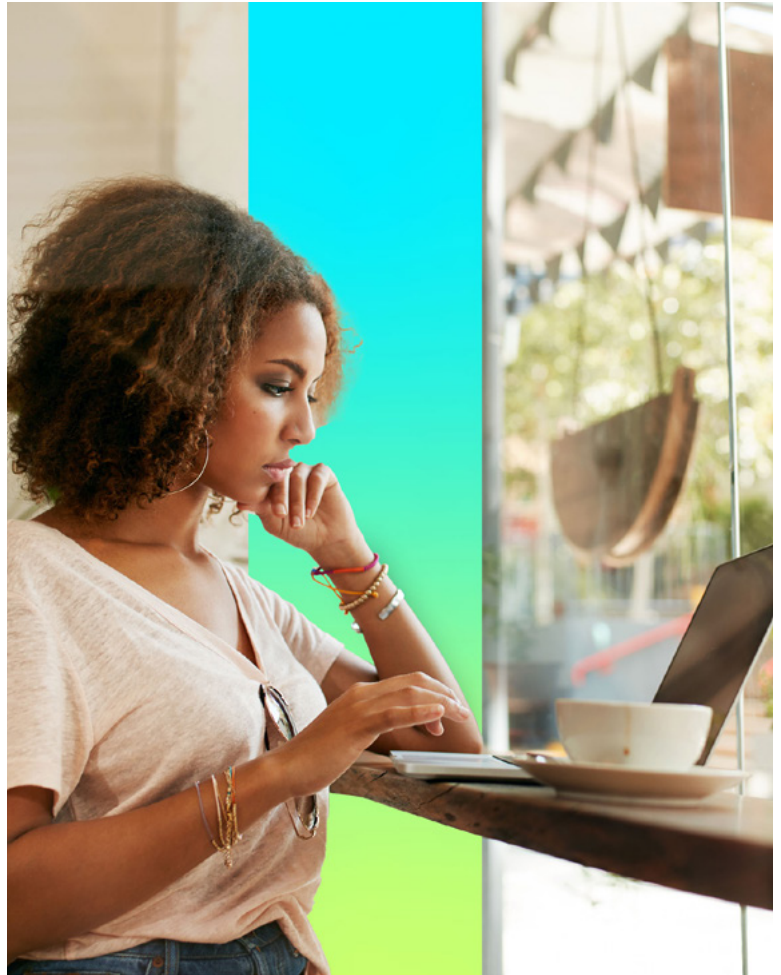


Why hire in EMEA?

Eighteen of the top 25 countries ranked by the [World Competitiveness Center](#) are based in EMEA. The study ranks countries in three main categories – investment and development, appeal, and readiness. These categories then assess how countries perform in education, apprenticeships, workplace training, language skills, cost of living, quality of life, remuneration, and tax rates.

The 2022 study cites the EMEA region as a “tour-de-force” in attracting, developing, and retaining top talent. Denmark, Switzerland, Sweden, the Netherlands, Finland, and Norway all rank among the top 10 with Ireland, the UAE, Luxembourg, and Germany close at their heels in the top 15. Meanwhile, Iceland, Qatar, and Austria are in the top 20, and Belgium, Estonia, the UK, Saudi Arabia, and Israel hold spots in the top 25.

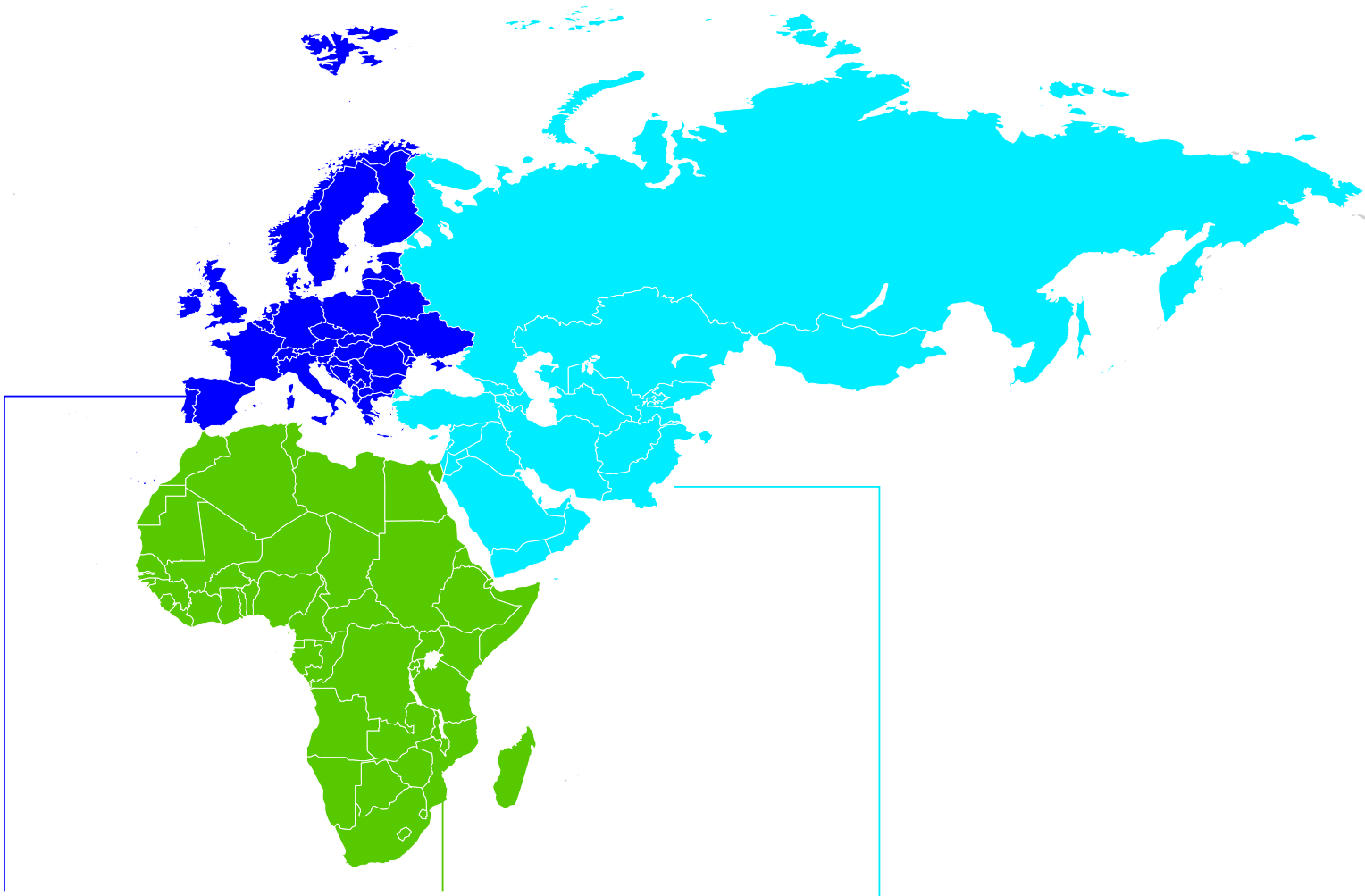
It is clear from the results that EMEA is the perfect business terrain to both develop local talent and attract international, highly skilled professionals.



Contractors and employees – what’s the difference?

CONTRACTOR	EMPLOYEE
Operates independently on a per-project basis	Works full-time for one company
Is not part of the employer's payroll	Part of the employer's payroll
Does not receive benefits like health insurance or pension	Receives mandatory benefits
Has the flexibility to decide when and where they work	Follows employer's guidelines and work schedule
Only given the information they require to complete their specific project	Require lengthy onboarding and training processes
Hired for short-term tasks	Hired for long-term objectives
Often has a specialized skill set	Generally has a broad, well-rounded skillset

EMEA region overview



Europe

- Europe is home to premier talent, making it a prime location to recruit in EMEA.
- Europe offers an established market with access to large global economies like Germany, France, and the UK.
- Central and Eastern Europe have recently undergone a resurgence in technology services

Africa

- Africa possesses the youngest population in the world.
- As Africa's middle class expands, education improves, and internet access increases, the continent is becoming an important place to do business.
- Construction of an undersea cable around the continent is expected to increase internet access for Africans between 2020 and 2030 by 53 percent.

Middle East

- Israel, the UAE, Bahrain, Qatar, and Turkey are ranked among the Middle East's best locations regarding human capital development and talent.
- Saudi Arabia is home to the region's largest economy.
- Significant steps have been taken by Saudi Arabia's government to improve its education system and develop more robust employee training programs.

The case for contractors

To determine when to hire a contractor and when to hire an employee, consider these key benefits contractors can offer.

1. Niche skill sets for superior results

A contractor can supply specialized skills your company's in-house team might not have. Rather than upskilling existing team members or hiring full-time employees for one specific project or period of time, it can mitigate cost and resources to hire a contractor. Moreover, there is often a vast international pool of competitive contractor talent. Working with contractors can be a great way to get timely and superior project results.

2. Positive financial impact

Even though your company will probably have to pay a contractor more at a daily rate than you would pay an employee, it is a more cost-effective option long term. You can bypass a worker's hiring process, training, and equipment distribution when you hire a contractor as they have all of the required tools and experience going into the job. Additionally, your company will save money on payroll and benefits, as the contractor will not require either.

3. Independent working style

Your HR team doesn't have to train or onboard your contractors, just as management spends a lot less time overseeing their work – when there is a problem with a contractor's project, they're expected to have the knowledge and tools to resolve it on their own. This avoids the need for management to get involved and frees up company time and resources to focus on core activities.



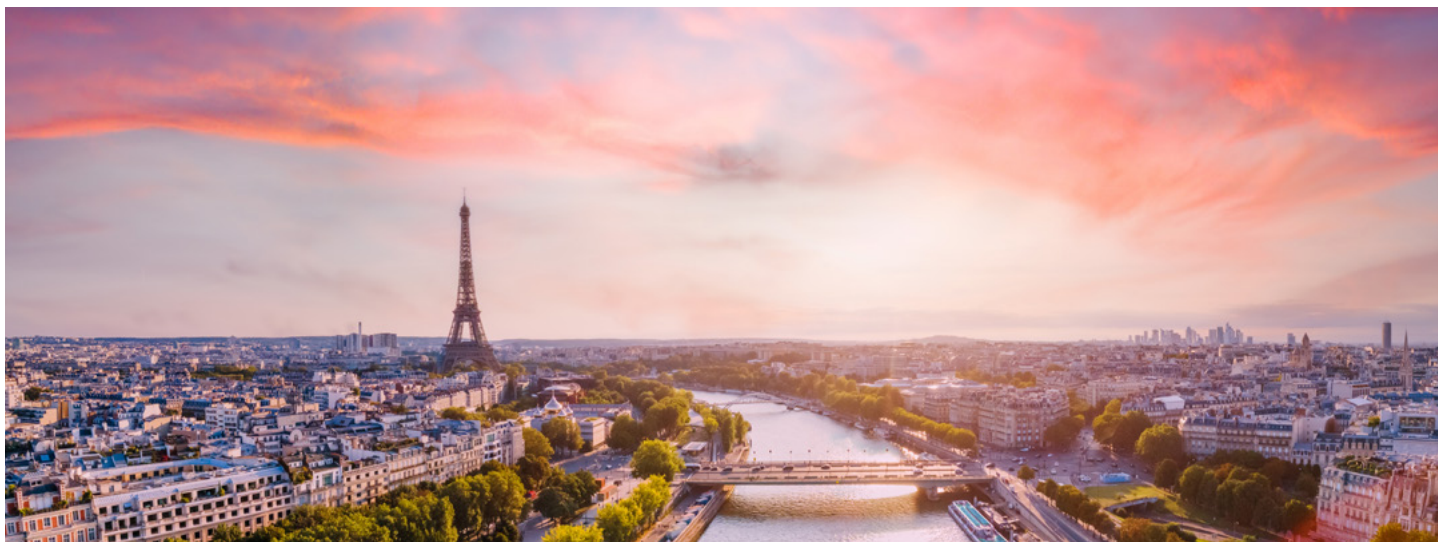
Hiring contractors compliantly in EMEA

In April 2020, the [Court of Justice of the European Union \(CJEU\)](#) ruled that national courts are accountable for worker classification and whether or not contractors should be deemed employees eligible for employment privileges. However, the CJEU noted that being categorized as an independent contractor under national law does not block a worker from being categorized as an employee under European Union law.

While there are clear benefits to hiring contractors, laws like this can complicate the contractor classification process. There are also country-specific rules on

what qualifies a worker to be a contractor versus an employee, as well as harsh penalties for failing to comply, which can severely damage a company's reputation and long-term success. This is one of the most significant financial risks in hiring independent contractors. Therefore, it is crucial to look carefully at all the aspects of worker classification.

Find out how five of the most popular hiring hubs in the EMEA region regulate independent contractors to avoid legal challenges and ensure your global growth goes as smoothly as possible.



France

Laws: In France, the Supreme Court distinguishes between employees and contractors by examining the performance of duties under the employer's authority, an employer's ability to monitor the execution of tasks, and the power to hold subordinates accountable for breach of duties. An independent contractor relationship does not fall under this definition. While an employer that hires an independent contractor can outline the job responsibilities and

desired results, they're limited from doing much else. A contractor states their own working hours and location and cannot be penalized or monitored by the employer.

Penalties: While hiring independent contractors in France is legal, the government has implemented rules that makes it challenging. It's difficult for companies to win in court in a legitimate misclassification case against them, often being held

liable for the social contributions that should have been paid. This includes back payments with a potential markup. If the misclassification is found to be intentional, hefty fines and even imprisonment may occur. Additionally, the misclassified independent contractor can claim outstanding payments such as overtime, severance if the termination was initiated by the company, and a lump sum indemnity of six months' salary.

Germany

Laws: In Germany, distinguishing a contractor from an employee depends on the relationship between the parties. The law acknowledges two critical criteria for contractor status: performance and working time. While an employee's workload and schedule are generally assigned by their manager, an independent contractor has ultimate control of how, where, and when they work.

Penalties: In Germany, several penalties await the guilty company should the contractor file a successful lawsuit. Employers can

be liable for up to four years of social security contribution arrears, including [12 percent annualized interest](#). If the misclassification was proven to be intentional, the penalties grow even more severe – companies are liable for up to 30 years of back payments in these cases. Proven intent cases can also result in criminal charges. A company's legal representatives, usually directors or managers, are subject to criminal prosecution with a max sentence of five years in prison, can be charged with fines, or become liable for the outstanding social security payments.

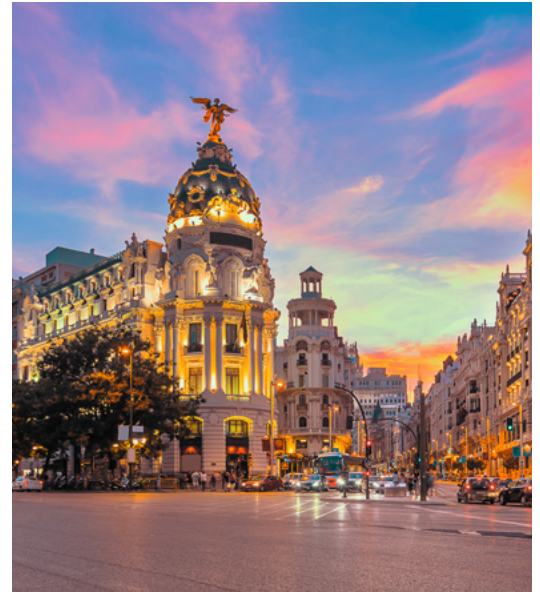


Spain

Laws: Spain uses individual autonomy and contractual documentation criteria to determine whether workers are employees or independent contractors. Any company in Spain should address the Statute of Independent Contractors created by [Law 20/2007 of July 11](#). Independent contractors must pay their own taxes and social security costs to obtain a public pension or unemployment subsidies. More than [75 percent of their income](#) must come from a single client in order to qualify as a dependent

self-employed worker. They must also complete their own work in accordance to Spain's rules that prohibit them from hiring their own employees or subcontracting their work to another independent contractor.

Penalties: If a company misclassifies a contractor in Spain, they can be fined between 100-150 percent of the contributions not paid. The contractor will also be entitled to reclaim the amount owed for social security pension contributions.



The Netherlands

Laws: In the Netherlands, companies that hire independent contractors must ensure no hypothetical employment relationship exists. Companies only have to pay payroll taxes for their employees, but not for contractors. If a contractor is determined to be an employee based on their work, it is known as disguised employment. To avoid misclassification, companies can choose to work with contractors based on three standard model agreements designed by the [Dutch Tax and Customs Administration](#):

- **General model agreements:** Cover most business relationships that do not involve employment.

- **Sector or profession-specific model agreements:** Meant for everyone working according to specific sectoral or professional standards or conditions.
- **Individual model agreements:** Drawn up by a specific sector of the profession, and anyone working in the same industry or career may use them.

Penalties: The Dutch Tax and Customs Administration regularly checks to determine whether there is an employer-employee relationship. If there is, they can enforce disciplinary fines or taxes, particularly when malicious intent is discovered.



Laws: The UK government has [specific legislation, IR35](#), to help companies manage independent contractors. IR35 requires contractors pay the same income tax and national insurance contributions as an employee of a company would. Since April 2021, workers who don't meet the criteria for being self-employed will fall under IR35 rules. And it's the company's responsibility to ensure their contractors aren't misclassified.

Penalties: In the UK, independent contractors can claim employment status and file an unfair dismissal claim. They can be rewarded up to [GBP 93,878 or 52 weeks of gross salary](#). This is in addition to a base award not exceeding GBP 15,750. Moreover, companies are typically liable for pension, social contribution, tax back payments, and interest if they are found to have misclassified an independent contractor.

Transitioning a contractor to employee status

Due to the varying laws and regulations around hiring contractors throughout the EMEA region, it's important to consider some key best practices, including:

- Consult local legal experts.
- Use government self-check services.
- Review contracts with each independent contractor you hire.
- Train managers and HR on country-specific misclassification legislation.
- Consider the contractor-to-employee transition process if the relationship with your contractor or your company's needs change.

There are many reasons a company may need to convert a contractor to a full-time employee. For instance, they may perform exceptional work, which has played a vital role in company

growth and has transformed into a quality, long-term working relationship with your company.

Generally, contractors are happy to switch to employee status as this entitles them to benefits like employer social security and increased job security. However, this is a significant change for all involved. The contractor will have access to more substantial benefits and consistent work, but much of the autonomy they had as a contractor will shift to a managed, team-oriented experience. Likewise, the employer is making a long-term financial investment that should be considered carefully.

Employers must be prepared to navigate challenges such as negotiating an agreeable salary

compared to the previous contractor fee. Due to their latest tax status as self-employed, a contractor's net income can end up being lower when they switch their position from a contractor to an employee. Therefore, they often negotiate heavily for increased wages.

Just as with misclassification, companies can face heavy fines that damage their reputation if the conversion process isn't approached with legal expertise and proper preparation. This includes understanding the required legal aspects of the transition, such as income tax forms, payroll taxes, and labor laws.

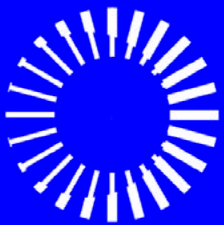
But converting or hiring international contractors doesn't have to be challenging.

How G-P can help

Suppose your company has decided that a contractor is the best option for your needs. [G-P Contractor](#), an extension of G-P's market-leading Global Employment Platform™, allows you to hire contractors anywhere in the world with just a few clicks. We understand that as your company grows, your hiring needs may change – that's why our platform and team of HR and legal experts are at your side to help you effortlessly convert your contractors to full-time employees if the need arises.

At G-P, we're your partner in global expansion, bringing boundless talent to your fingertips by allowing you to bypass entity establishment, in-country registration, and licensing, payroll, and benefits setup – we handle the complex administrative processes so you can focus on your people. [Contact us today](#) to learn more about how we can help you unlock the potential of your global teams.





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