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Here's 5 Reasons Why Third-Party Risk has Gone Up for Most Organizations

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Devastating effects on the US economy in the last eleven years, but really dawning in 2001, reduced employment opportunities for all levels of jobs to the point where unemployment extended beyond the unimaginable.

1099 worker misclassification liability is increasingly dangerous in today's business climate, and "the government is significantly cracking down on misclassification.

"For example, the Department of Labor (DOL) [forced offending employers to pay \\$6.5 million in back wages](#) in fiscal 2010, up from \$2.6 million in 2009," and these figures are from six years ago; by [2013](#) the figure was up to \$15.6 million.

The First of the top reasons, that third-party risk is up, falls into the category of necessity.

When unemployment ceased being an option, countless people elected to take a look at self-employment in areas of their expertise. Spurred on by internet chatter this new crop of entrepreneurs collaborated with each other to learn how to tap into the looming, global market potential.

As former employees who were predominantly forced to find work in other ways, they still had the worker mentality, and at the outset, many began setting up shop without bothering to become a legitimate business entity.

Foreign workers were also in league with those who saw the opportunity to work for US companies willing to outsource, and they quickly started to vie for jobs at a far cheaper rate--whether as employees or as contractors.

The Second of the top reasons third-party risk is up has to do with a daunting reality: when confronted with the dramatic rise in the cost of benefits, and the constant new government regulations, business was compelled to lay off employees and tighten their belts,

However, it quickly became apparent that indispensable talent necessary to grow a business was missing, and US business commenced to bleed.

Voilà! A plethora of independent contractors' a/k/a wantpreneurs appeared on the doorsteps of former employers vying for their business. They were willing to step in, as contractors, and fill the gaping holes. They were charging a bit more, but they were still cheaper because there were no benefits attached to the deal and no more unemployment to pay.

Outsourcing (on and offshore) appeared as the perfect solution, and business hired them to stop the bleeding. Following, you can partially see how the situation progressed to our current risk dilemma.

2011: "In the two years after the Wall Street meltdown triggered the Great Recession; large American corporations slashed U.S. payrolls by a net of 500,000 jobs. At the same time, they hired 729,000 workers overseas." [Theweek.com](#)

2013: "By the end of **2010**, there were more than 2,300 U.S. parent companies with nearly 27,000 affiliates operating abroad.

"In comparison, foreign firms had over 6,000 affiliates operating in the United States.

"U.S. parent companies employed nearly 23 million workers in the United States, compared with the 13.3 million workers employed abroad by U.S. firms and slightly less than 6 million persons employed in the United States by foreign firms." [Congressional Research Services](#)

2014: "There are definitely good resources offshore, but the good ones are a minority," said John Houghton, chief executive of a Californian app development firm, Mobilcast Media, in a Financial Post article. "After years of offshoring, a lot of work is coming back onshore." [FinancialPost.com](#)

2016: "The employee vs. contractor debate has the potential to have a major impact on the insurance industry," this according to a pair of experts speaking last month on the topic reported by the [InsuranceJournal.com](#). "It's estimated there are **10 million** independent contractors in the U.S. and that **10 percent of those people are misclassified**," stated one of the speakers, John Zeigler, an attorney with Marshall Dennehey Warner Coleman & Goggin.

The **Third** of the top reasons that third-party risk is up, just quietly laid down, unnoticed, on the doorsteps of business, government, and independent contractors.

Relief has a diverting way of making things seem like they are moving in a positive direction when instead things are languishing beneath the surface. The honeymoon condensed into a situation where businesses, trying to set up guidelines, misclassified employees and contractors.

When the contractors, having been employees, initially came under contract with a business, a lot of them still acted like employees. Business, used to them being employees, still treated them as such to the chagrin of the contractors, and this became a hot topic!

The **Fourth** of the top reasons third-party risk is up, embodies the currently, formidable name of misclassification.

Disgruntled contractors, having complained when treated like employees instead of contractors, and vice versa, are now launching loud complaints of unfair treatment.

Businesses have commenced scrambling to right their ships before one of the many bureaucracies can step in and take them down with compromising legal problems and possible fines.

The **Fifth**, of the top reasons third-party risk is up, resides in Washington, D.C.

The government, taking notice of the garrulous noises being made in the marketplace about the predicaments in which independent contractors and employees seemed to find themselves, coupled with a dramatic decrease in small business revenue, sparked a closer look at the anomaly.

Currently, there does not seem like there is an end to the structuring and restructuring of new laws, and with each one, business is scrutinized with magnification.

In addition, ambiguous horizons continue to exist, even to the highest court in the land. "The Supreme Court has indicated that there is no single rule or test for determining whether an individual is an employee or independent contractor for purposes of the [FLSA](#).

"The Court has held that the totality of the working relationship is determinative, meaning that all facts relevant to the relationship between the worker and the employer must be considered."

And yet, contemporary reports lean toward culpability on the part of business while exonerating independent contractors.

In some cases, **corporate officers or members or partners** are being held personally liable for the total amount of uncollected tax up to 100% while independent contractors who wrongfully benefit as a result of the [1099 worker misclassification](#) are virtually free from penalties.

A more recent approach has been the emergence of enterprises “matching providers to consumers on a gig (or job) basis, in support of on-demand commerce. [Recent trends](#) in on-demand commerce suggest that gig workers may represent a growing segment of the U.S. labor market.

In response, some Members of Congress have raised questions, for example, about the size of the gig workforce, how workers are using gig work, and the implications of the gig economy for labor standards and livelihoods more generally.”

And, the beat goes on...

The culture of global business is stringently compelling a plethora of abrupt and unforeseen changes upon us all, leaving us nowhere to hide. ██████████ ██████████ is in business to make sure you are prepared. Please contact us to talk more about your areas of possible exposure

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