Eliminate international contractor risk

Two paths to compliance: Employer of record or entity to convert workers to employees

SAFEGUARD GLOBAL

GEO or legal entity?

Uncover the best way to convert international contractors to employees

Table of Contents

Are independent contractors putting your business at risk?

With the rise of work-from-anywhere employment, more and more businesses are hiring workers beyond borders. Between 2020 and 2023, for example, the number of North American companies employing workers in Central America and the Caribbean skyrocketed by 300%.[1] Hiring in other countries can provide access not only to a wider talent pool, but also to niche skill sets and local market expertise.

Many of these hires are freelancers or consultants who are brought on for a limited time or specific project—a category of worker typically referred to as an independent contractor.

Unfortunately, someone you consider and compensate as an independent contractor may be classified as an employee according to employment law in the country where they work. Every market defines workers differently, but most take into consideration not just where they work, but also how their schedule is set, what equipment they use and what other contractual obligations exist, for example. If you've misclassified someone on your payroll, your organization could be at grave risk of massive fines, a business shutdown or even jail time.

Accessing the global labor pool is good for business, but to do so and thrive, you need to eliminate your compliance risk. The simplest way to course-correct is to convert independent contractors to employees.

1 https://www.cnbc.com/2023/06/09/remote-jobs-are-moving-overseas-and-to-smaller-us-cities.html

Why worker classification matters

Since every country defines independent contractors and employees differently, you need on-the-ground expertise in local employment law to determine if your independent contractors should really be employees. In Spain, for example, contractors who earn more than 75% of their income from one client are entitled to paid time off and other benefits.[2] If a worker is misclassified, even one error can subject you to severe consequences, like paying out benefits you mistakenly withheld for the full length of their employment, going back as many years as they've worked for you. This brief summary can help you identify where you could be at risk of misclassifying a contractor.

Independent contractor	Employee
Generally does not receive benefits	Entitled to benefits
Responsible for supplying their own equipment	Uses equipment you furnish, including computers and office space
Paid by the invoice, not the pay period	Receives an hourly or annual wage on a regular schedule, no invoicing required
Files their own income and employment taxes	Taxes are deducted from their paychecks
Employers are typically not required to pay into social benefits	Employers must pay into social benefits
Can work for multiple companies	Works only for your organization
Decides when, where and how they get their work done	You determine where, when and how they work

2 https://jiahkimlaw.com/business/ultimate-guide-hiring-foreign-independent-contractor/

What’s at stake?

Even when you’ve accurately classified an independent contractor, you may still be compensating them incorrectly or mistakenly denying them benefits they’re entitled to. Employment regulations in the Philippines require you to put all independent contractor relationships in writing and register them with the Department of Labor and Employment; if you don’t, you could owe significant penalties.[3]

Consider this sample of real-world sanctions for misclassifying independent contractors.

$530 MILLION

The jaw-dropping amount Nike may owe after misclassifying workers across the U.S., U.K., Belgium and the Netherlands

Source

10 YEARS

The length of time employers could be banned from hiring independent contractors in France

Source

250-5,000x MINIMUM WAGE

The amount Mexico may fine you for misclassifying even one employee

Source

3 https://sftaxcounsel.com/foreign-independent-contractor/

Two paths to compliance

Diversifying your workforce by hiring internationally can address a number of mission-critical business issues, from a shortage of skilled talent or the need for heightened innovation to growth opportunities in new markets. Whether hiring new employees internationally, or converting contractors to employees, there are a couple of ways to do so:

Establish a local entity

In order to employ workers directly, you'll need a legal presence in the country where you wish to hire or convert contractors to employees

Partner with an EOR

An employer of record (EOR) already has a local entity and can hire workers—or convert contractors to employees—on your behalf

Find the best fit: Entity setup vs. Employer of record

As you evaluate your business needs to determine the best international hiring strategy for your organization, it's helpful to understand the different requirements for entity setup vs. working with an employer of record. Keep in mind that in addition to the costs of entity establishment and tax registration, some countries require additional expenditures. For example, before incorporating in Belgium, you'll have to open a local bank account with a minimum of €61,500.[4]

Additionally, variables such as short- and long-term growth goals, your level of commitment to a particular worker or market, and labor availability in your industry or for specific job roles can help you determine which is the right fit for your organization.

	ENTITY SETUP	EOR SOLUTION
COST	$25K+	$1K per employee
TIME	2–3 months minimum	2 weeks minimum
LOCAL BANK ACCOUNT	Required	Not required
LOCAL HR EXPERTISE	Must be hired separately	Included in 170+ countries
TAXES	Must pay corporate income tax in some geographies	Salary, social costs required by law and VAT are all that's needed
COMPLIANCE RISK	Your organization shoulders 100% of the liability	Local HR experts ensure you're protected

4 https://www.navascusi.com/en/set-up-company-belgium/

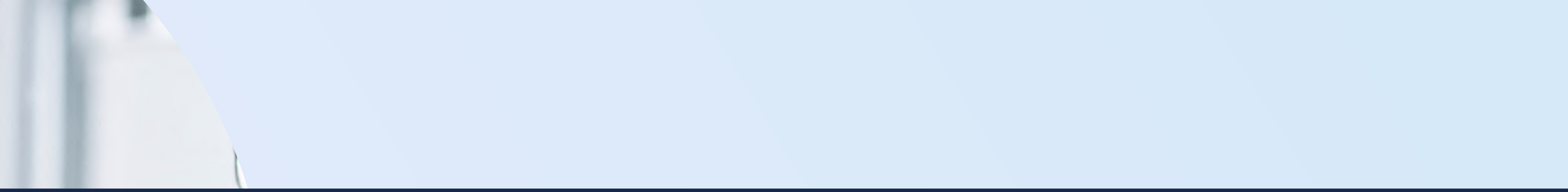
EOR: Your ticket to risk-free international hiring

In order to bring a contractor on as an employee, you need to have a legal hiring entity established in-country. If entity establishment isn't part of your growth strategy, or if you plan to set up an entity but you need to convert your contractors quickly to avoid noncompliance, the easiest option is to partner with an employer of record.

An EOR can hire international workers on your behalf because it's already done the work of establishing entities in countries around the world. Your workers still report to you, while the EOR handles the legal and HR requirements such as onboarding, hiring and payroll as well as providing ongoing in-country support. Not only does an EOR ensure compliance with the local labor laws, it can also advise you on cultural expectations and help you craft an attractive compensation package—which can be helpful if your contractor isn't sure that converting to an employee is in their best interest.

GEO, the employer of record solution by Safeguard Global, can convert independent contractors to employees in 170+ countries, and often in as little as two weeks.

Our on-the-ground HR expertise makes your job simple: You continue to manage your team and focus on business priorities, while GEO handles all of the administrative tasks.



Entity setup, simplified

If your organization is committed to a market long-term, a local entity may be the best route to help you meet your goals—including building a global workforce—despite the time and effort it takes to set up. Until your entity is finalized, an EOR can quickly hire contractors as employees on your behalf to protect you from noncompliance. Then, once your entity is up and running, you can hire them directly.

Either way, you don't have to go it alone. As your workforce solutions partner, Safeguard Global can help with both entity setup and interim hiring on your behalf.

For a new foreign entity, you can hand off incorporation to us and we'll handle the entire process, from setup to tax registration, starting with a checklist of documents we'll need from you. Our experts will guide you through the different entity options to help you decide which is the best fit, and streamline all of the logistics.

The key benefits of working with Safeguard Global on entity setup include:

Simplify the process

We tell you what you need to gather and take the rest of the work out of your hands

Eliminate confusion

We're experienced with all of the legal and administrative requirements in nearly 200 countries

Shorten the timeline

Our skilled team ensures swift entity setup in 30–45 days, plus 4–6 weeks for tax registration, surpassing the speed of going it alone or hiring a law firm

Ongoing support

After your entity is operational, we offer continued compliance updates, and you can add on local HR, payroll and accounting services

Provide an exit strategy

Dissolving an entity is considerably more complicated than establishing one, and we can take care of this in any country where an entity no longer meets your needs

Which entity is right for you?

There are three types of entities. We can help you weigh the pros and cons of each and choose the right one.

Representative office

A bare-bones entity used primarily for administrative operations where the parent company assumes full liability.

Branch office

An extension of the parent company. Unlike a representative office, it can be used to conduct business, but it usually requires a citizen or permanent resident to complete the registration.

Subsidiary company, or limited liability company (LLC)

Operates and conducts business as a separate legal entity, shielding the parent company from legal liability. It, too, often requires an in-country representative for registration.

Whether you want to convert independent contractors to employees with GEO, or establish your own entity to hire international workers directly, Safeguard Global offers HR expertise in 170+ countries to ensure you're compliant and in sync with local customs and expectations.

Learn how a global workforce solutions partner like Safeguard Global can eliminate compliance risk and remove barriers to international hiring with **entity setup** or **GEO.**

safeguardglobal.com

U.S. +1 737-704-2200
U.K. +44 (0) 1270 758020

Safeguard Global is a future of work company that helps workers and companies thrive in the global economy. Backed by a data-rich technology platform, local expertise and industry-leading experience, Safeguard Global provides end-to-end solutions to manage people and scale operations. With Safeguard Global, organizations can recruit, hire, manage, pay and analyze anywhere in the world, no matter where they are in their growth journey.