Agenda

- Introductions
- Contingent Workers: Background
- Rewards Strategy Concepts & Alternatives
- Global Tax Compliance Implications
- Questions
Introductions
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Contingent Workers: Background
What is a Contingent Worker (CW)?

Contingent workers are:

- Temporary workers, independent contractors or part-time workers
- Engaged on a short-term basis; in a work arrangement that is not long-term or year round
- Anyone engaged by the company that’s not an employee

“Contingent worker” serves as an umbrella term for several types of workers, for instance:

## Employee vs. Non-Employee: USA

The **three key categories** to determine CW classification are:

- Behavioral
- Financial
- Relationship

### Employee

- Individual’s tax is withheld via payroll
- Year-end wage statement (e.g., W-2)
- Employee rights (e.g., protection from dismissal, right to parental leave, discrimination protection)

### Non-Employee

- Individual is personally responsible for taxes
- Year-end Form 1099 reporting in the United States
- Limited worker rights
Employee vs. Non-Employee: Global

**Typical factors**

- Employer control
- Integration into organization
- Length of engagement
- Right to subcontract
- Ability to refuse work
- Own equipment / premises
- Financial risk

Determined by...

- Case law
- Practices
- Legislation
- Guidance
Rethinking Talent

Organizations are reframing the way they think about **talent** – workers are more than ever an asset, **not a commodity**, that helps to realize business objectives.

### OPEN TALENT ECONOMY CONTINUUM

<table>
<thead>
<tr>
<th>Balance Sheet Talent</th>
<th>Partnership Talent</th>
<th>Borrowed Talent</th>
<th>Freelance</th>
<th>Open Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time statutory employees of your organization. You bear all the carrying costs of these employees.</td>
<td>Employees that are part of a partnership or joint venture that are on a related balance sheet.</td>
<td>Employees who are part of your value chain or ecosystem but who reside on someone else’s balance sheet, such as contractors who work in support roles.</td>
<td>Independent workers you hire for specific but temporary projects</td>
<td>People who provide services for you for free, either independently or part of a community – for example, those who answer questions about your products on the web in an open source help function.</td>
</tr>
</tbody>
</table>
The use of contingent workers continues growing rapidly in what has been deemed “the gig economy.”

In 2010, about 10% of workers globally were contingent workers.

In 2013, about 27% of workers were contingent workers.

In 2018, an estimated 40-50% of workers will be contingent workers.

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Why Engage Contingent Workers?

Engagement of Contingent Workers

Risk vs. Cost

Businesses evaluate the trade offs between risk level and costs while making hiring decisions.
Rewards Strategy Concepts & Alternatives
Rewards Strategy Concepts and Alternatives

Employee Base Salaries are Largely Similar\(^2\)

Less than 20% of employers reported that the hourly wage cost of contingent workers is lower than that of regular workers.

Employers Lower Costs by Restricting Benefits\(^1\)

Over 40% of contingent workers have no health insurance.

Agency and Service Provider Premiums Increase Employer Costs\(^1\)

Majority of employers indicated that the hourly billed rate for agency temps is higher than the hourly wage rate for regular workers.

Contingent workers’ total compensation is reduced due to fewer hours and lack of benefits, but are willing to trade compensation for…

Flexibility!

Millennial Work Habits Fuel the Drive Towards Greater Flexibility\(^2\)

Millenials say that flexible working arrangements support productivity and employee engagement while enhancing their personal well-being, health, and happiness.

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Contingent Worker Spot Survey: Overview

The Spot Survey of Contingent Talent was administered by Empsight International and surveyed over 30 multinational firms regarding their contingent talent management practices.

Revenue Mix

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. $30 Billion and Above</td>
<td>11%</td>
</tr>
<tr>
<td>B. $15-30 Billion</td>
<td>16%</td>
</tr>
<tr>
<td>C. $10-15 Billion</td>
<td>21%</td>
</tr>
<tr>
<td>D. $5-10 Billion</td>
<td>16%</td>
</tr>
<tr>
<td>E. $3-5 Billion</td>
<td>13%</td>
</tr>
<tr>
<td>F. $1-3 Billion</td>
<td>18%</td>
</tr>
<tr>
<td>G. Less than $1 Billion</td>
<td>5%</td>
</tr>
</tbody>
</table>

Industry Mix

- Consumer Products, 16%
- Financial Services, 11%
- Insurance, 11%
- Oil / Gas / Services, 11%
- Retail / Wholesale, 11%
- Technology / Telecom, 8%
- Manufacturing, 8%
- Professional Services, 5%
- Electric & Gas Util, 3%
- Healthcare, 3%
- Other, 16%

Companies Dedicate Resources Internally to Manage Contingent Talent

Is your contingent talent program managed internally, externally or a mixed model?

- Managed internally: 45%
- Managed externally: 50%
- Mixed Model: 5%

How is the Pay Rate for Contingent Workers Determined?

Use of Contingent Worker Category Varies Across Functions & Departments

Which are the top organizational functions or departments that make the most use of each category of contingent workers? (Ranked in order of most to least)

<table>
<thead>
<tr>
<th>Function</th>
<th>Temp / Seasonal</th>
<th>Staff Augmentation</th>
<th>Independent Contractors</th>
<th>Consultants / Professional Services</th>
<th>Outsourced Service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
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<tr>
<td>Administrative Support</td>
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<tr>
<td>Finance/Accounting</td>
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<tr>
<td>Engineering</td>
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<tr>
<td>Sales/Marketing</td>
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<tr>
<td>Operations/Manufacturing</td>
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<td>HR</td>
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<tr>
<td>Legal</td>
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<td>√</td>
<td></td>
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<tr>
<td>Supply Chain/Distribution</td>
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</table>

Contingent Worker Talent Pyramid

Contingent workers were traditionally perceived as being located on the base of the talent pyramid.

Source: Bersin by Deloitte, 2013.
The Coca-Cola Perspective on Contingent Workers


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Compliance Implications
Impact of Misclassification

**Tax**
- Payroll tax liability
- Penalties
- Interest

**Legal**
- Employment rights
- Entitlement to benefits
- Flexibility to hire, fire, and relocate

**Reputational**
- Relationship with individuals
- Corporate public image
Legal Landscape Surrounding Contingent Workers
CW Trends: Bridging the Compliance Gap

Regulatory environment

- IRS increased budget on investigating worker misclassification by 30% in 2015.

- Employment status recommended as “high priority” for allocating UK tax enforcement resources.

Internal environment

- Legal & regulatory uncertainty is no.1 contingent worker challenge for employers.

- Only 19% of HR leaders believe their businesses understand labor laws for contingent workers.

1. “Contingent Labor Management: Strategies and Solutions for a Flexible Workforce”, Aberdeen Group, April 2015
Questions?
About Deloitte’s Human Capital Practice

Deloitte helps organizations effectively manage their human capital to drive business growth. It does this leveraging advanced analytics to develop talent management and business-driven HR strategies to deliver results. Deloitte is a leader in human capital consulting, bringing a unique combination of business, industry and HR knowledge, supported by the breadth of services and capabilities of a multidisciplinary professional services organization and global network.

Website:  http://www.deloitte.com

About Empsight Compensation Surveys & Consulting

Empsight International, LLC compiles and publishes compensation surveys which provide users in Fortune 500 and large multi-national corporations with comprehensive analyses of selected functions or segments which are often under-served from a compensation data perspective. Founded in 2003, Empsight has earned a reputation for quality and innovation amongst its client base, as reflected in recurring participation in our surveys. Many clients participate in multiple surveys each year. Our Principals and staff have significant experience in consulting on compensation, organizational and human resource issues across multiple industry sectors.

Website:  http://www.empsight.com
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