Employee or Freelancer: Which One Do I Need?

Discover the pros and cons of hiring a freelancer and learn when it really does make more sense to bring on an employee instead.

September 25, 2020 5 min read

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You need help, but you're trying to figure out whether it can be on a contract basis or whether you need to payroll someone. This question comes up a lot and it has important implications for working relationships. Do you need an arrangement with a contractor or do you need to hire a regular employee? With millions of freelancers in the U.S. alone, you have your pick of qualified candidates. Take a step back and do some homework to figure out whether you truly need an employee or an independent contractor.

When you have an employee on payroll, you're in control of what the working relationship and schedule look like. As the employer, you're most likely paying them on an hourly or salaried basis and taking out taxes. Most employers, of course, are going to offer a benefits package to their workers as well. Contractors, on the other hand, are being paid a flat fee per project or an hourly fee to work with you, but are not receiving W2s or getting benefits in the vast majority of situations. *(To learn more about IRS designations and tests used to help you determine whether the working arrangement you have in mind really fits legal definitions, check out this resource page.)*

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There are a few big benefits of hiring a freelancer:

- Only pay for the work you actually need
- No benefits payment unless you want to offer it
- Can seek out competitive rates in the marketplace and match your budget and desired experience level with a like-minded freelancer
- Access to talent all over the world (which you'll also get if you hire a remote employee)

Here are the things to consider when deciding whether or not to outsource to a freelancer or bring on an employee.

Working arrangement

Freelancers, by law, need to maintain autonomy in how they do their work. For this working arrangement, flexibility is the key. For most contractor relationships, the freelancer will be working on their own equipment on their own schedule, meeting deadlines on projects as needed. In general, freelancers will remain available for scheduled calls but are not "on-call" during typical working hours the same way that an employee would be.

If you need someone to be available during your set hours daily, meaning that they'd have to block off their entire day to work when the rest of your team is working, this usually means an employee/employer relationship. And in the U.S., that means payroll, W2, and Social Security/Medicare taxes paid as part of their paycheck.

If you're open to a more flexible arrangement and truly want to treat this person like an independent contractor – where they control how and when they do their work – a freelancer is the better choice.

Just don't blur the line. Decide what best suits your needs

and keep it that way. If you have to make changes, talk to your worker about the need to change status and whether they are comfortable with that.

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Talent

Do I have access to the kind of talent that wants an employee position? Many freelancers work remotely by choice and want to have access to more than one client at a time. This means that some of the best talent out there could be among the freelance pool. Leaving jobs is a bigger commitment, but taking on a new client is commonplace for freelancers, so there might be more people you can speak to more quickly about the opportunity if you go the freelance route.

This is not to say there aren't great people seeking full-time positions out there. Quite the contrary, actually. But being open to freelancers who might be able to do the job more quickly when you only pay them for the work done could stretch your budget better.

Workload

Do you have enough work to keep a part-time or full-time employee busy consistently? If not, you'll end up paying a salary or for hours in which the worker has nothing to do. That doesn't turn out well for anyone.

Sporadic workload or short-term overload is a strong case for hiring a freelancer, whereas ongoing work – especially when you need someone available to you during specific hours – indicates you may need a permanent employee. Since both parties could potentially work remotely, thus expanding your talent pool, it becomes even more important to think about the structure of the working relationship and the overall

workload.

While freelancers can stay with your company for a long time billing hourly or on retainer, plenty of them are happy to work with you for smaller projects or shorter time periods, too.

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