NEXT

DOES A SOLE PROPRIETOR NEED A WORKERS' COMPENSATION INSURANCE POLICY?



Workers' comp rules and regulations can be tricky, and your clients might look to you for advice on when they need this type of insurance.

If your clients are self-employed as sole proprietors — that is, they get paid through a form-1099 and not a W2 — they probably don't have workers' compensation insurance.

State governments regulate workers' comp, and the rules are slightly different in each state. Generally, if a client is a sole proprietor and they don't have anyone else working for them, they probably are not required to have workers' compensation insurance.

They will probably need workers' comp if they hire people to work for them — even if they are working part-time or as independent contractors.

Workers' Comp insurance for self-employed independent contractors

Here are some examples of when different types of self-employed independent contractors might need workers' comp:

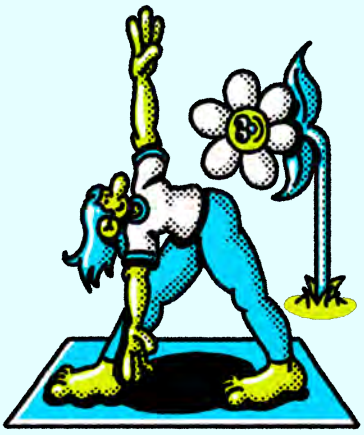
Plumbers
Joe is a plumber who works on his own, but when he lands a big job, his nephew, who is also training to be a plumber, works with him.

If the nephew gets hurt installing a U-bend, Joe might have to pay his medical costs, which could be pretty high. Workers' comp would help pay for expenses, and it could be required in Joe's state.



Yoga teachers
Lily's outdoor yoga practice is taking off, so she expands her classes to include more students. She has a friend who is also a yoga teacher, Ben, and she asks him to teach with her so she can give individual attention to her students.

Ben thinks he's an independent contractor who's working alongside Lily, not an employee who needs workers' comp. But some states would see him as an employee and require Lily to have workers' comp.



Do clients need Workers' Compensation insurance for themselves?

Many companies will only hire an independent contractor if they have workers' comp. This is because they want protection from potentially expensive lawsuits if someone gets hurt while working for them.

It's legal for a company to refuse to hire an independent contractor unless they have workers' comp

Most companies don't want to buy workers' comp for sole proprietors they hire to power wash the floors or do a company photoshoot. But they also don't want to have to pay medical costs if someone gets hurt.

That's why they'll ask your client to provide a certificate of insurance with active coverage before they sign a contract with them.

There are also benefits to buying workers' comp for business owners

If your client gets hurt at work and has workers' comp, they won't need to use their personal health insurance to cover medical costs.

Even if their medical insurance provides coverage for treatment expenses, it won't cover any of the lost wages. Workers' comp can help with that.



What is the sole proprietor Workers' Comp exemption?

In some states, your clients can get a sole proprietor workers' compensation exemption.

A workers' comp exemption is a declaration that coverage isn't necessary because there are no employees. In California, for example, your client can't get their contractors' license renewed unless they have proof of paying workers' comp, or a valid sole proprietor workers' comp waiver.

To get a workers' comp exemption for sole proprietorship, your client will have to complete the right form for their state, take it to be notarized and usually pay a small fee.

They won't have to pay for workers' comp coverage, but they might have to pay out of pocket to cover expenses if they get hurt at work.

For more information about NEXT coverage, check out our appetite guide.