More Liability for Using Independent Contractors

A California Chamber of Commerce-opposed “job killer” bill that completely undermines the legal significance of the independent contractor relationship passed a Senate committee on May 8.

SB 556 (Corbett; D-San Leandro), newly identified as a “job killer,” unfairly imposes liability on any contracting entity for the damages caused by the contractor or contractor’s employees, including wage-and-hour violations, penalties, fines, and willful misconduct, solely on the basis that the contractor or its employees wore a uniform similar to that of the contracting entity or drove a vehicle with the contracting entity’s logo.

Daunting Task

The independent contractor analysis is a daunting task for any business. The three state agencies (Employment Development Department, Franchise Tax Board, and Department of Industrial Relations) that determine whether a worker has been properly classified as an employee versus an independent contractor use three different tests that result in

NLRB Union Poster Rule Struck Down By Appeals Court

A federal court of appeals struck down a National Labor Relations Board (NLRB) rule requiring most companies to post a notice informing employees of their union rights.

The controversial poster rule required most private sector employers to put up NLRB-created workplace posters entitled “Employee Rights Under the National Labor Relations Act.”

The poster generally informs employees of their rights to organize a union, bargain collectively through representatives chosen by the employees and to make efforts to improve the terms and conditions of their employment.

Violation of Free Speech

A three-judge panel for the U.S. Court of Appeals for the District of Columbia said the NLRB violated employers’ free speech rights and overstepped its legal authority.

Judge Raymond Randolph noted that federal law protects “the rights of employers (and unions) not to speak,” and that the poster rule was “compelled speech.”
Five Things Employees Think They Are Entitled to at Work... But Aren’t

My employees often tell me they are legally entitled to certain things at work, but I can’t find any laws that prove them right or wrong. How can I handle these demands?

It’s not uncommon for employees to insist there are laws giving them certain workplace rights, when in fact no such laws exist. Here are some common examples:

- **Cell Phones:** Have you noticed employees are suddenly spending a great deal of work time texting or using social media on their cell phones?
  Employees have no legal right to possess or use personal cell phones in the workplace. Employers may prohibit employees from bringing cell phones to work entirely, or may require that they be turned off and/or put away during the work day. Of course during meal breaks, when employees do have the right to leave the premises, they may use their cell phones.

- **Smoke Breaks:** Smokers may insist they have a right to more (or longer) breaks in order to satisfy their nicotine habit.
  Employees are of course entitled to a certain number of 10-minute paid breaks based on the number of hours they work, but during those breaks they may be required to remain on the employer’s premises.

- **Bereavement Leave:** What do you do when your receptionist tells you her husband’s Great-Uncle Joe has passed away, and she’ll be taking three days of bereavement leave to go to the out-of-town funeral?
  Since smoking indoors in the workplace is generally prohibited, and an employer may ban smoking anywhere on its property, employees may be limited to smoking only during their meal breaks and only off the property.

- **Paid Family Leave:** You have 20 employees and one announces he’ll be taking his six weeks of Paid Family Leave when his baby is born next month.

  The Paid Family Leave program is simply an insurance policy that the state of California requires employers to buy through a mandatory payroll deduction (which provides wage replacement when an employee takes a leave for baby bonding or to care for an ill family member), but it does not give any employee a right to take a protected leave for baby bonding.

  Unless an employee has a legal right to baby bonding leave under the California Family Rights Act or the federal Family and Medical Leave Act, an employer is not required to give an employee time off simply because wage replacement insurance exists through the Paid Family Leave insurance program.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

**CalChamber Calendar**

- Legislative Briefing: May 21, Sacramento
- International Forum: May 21, Sacramento
- Environmental Regulation Committee: May 21, Sacramento
- Water Committee: May 21, Sacramento
- CalChamber Fundraising Committee: May 21, Sacramento
- Board of Directors: May 21–22, Sacramento
- Host Breakfast: May 22, Sacramento
Unemployment Insurance System Broken, Employer Federal UI Tax Increasing

California Debt to Federal Unemployment Fund Exceeds $10 Billion

The California Chamber of Commerce and a number of employer groups are working to raise awareness of the plight of the state’s unemployment insurance (UI) system, as evidenced by the outstanding debt to the federal government.

California continues to have one of the highest unemployment rates in the country, and economists predict a slow recovery. The state needs a sustainable UI system that protects both workers who are temporarily unemployed through no fault of their own, and employers trying to put people back to work.

Federal Tax Increasing

California employers’ federal UI tax is increasing dramatically. In accordance with federal law, all the increase goes toward paying down California’s $10.9 billion debt.

California’s UI Trust Fund has been insolvent since 2009, and the state has been borrowing from the federal unemployment account to continue paying benefits to unemployed Californians.

The increasing tax is the same for all employers, regardless of experience, size or industry.

Both federal and state UI taxes are paid entirely by employers on the first $7,000 in wages paid to each employee annually.

Generally, employers receive a credit against the Federal Unemployment Tax Act (FUTA) tax rate.

Due to California’s outstanding debt, however, California employers are now subject to a credit reduction, which results in a federal tax increase on employers.

For each year the state’s loan remains unpaid, an employer’s FUTA credit is reduced by 0.3%, resulting in a tax increase.

Cumulative Impact

The table below illustrates the cumulative impact on California employers. Each 0.3% of credit reduction is equal to a federal tax increase of approximately $21 per employee per year.

Taking Control

California needs to take control, and the business community is taking an active role in approaching the UI problem in a way that is equitable, preserves the integrity of the system and protects the safety net.

The business community is committed to working with the administration in developing a comprehensive, realistic, workable solution that won’t hinder job creation and economic recovery for the state, is equitably applied, and includes needed reforms.

The solution must be consistent with other states.

System reform must address fraud, overpayments and benefit eligibility, and is necessary to ensure future solvency.

Staff Contact: Marti Fisher

Cumulative Impact: State UI Taxes will Escalate as Long as California Owes Federal Unemployment Debt

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Percent (+ 0.3% per year)</th>
<th>Tax Increase Per Employee (+$21 per year)</th>
<th>Total Increase for Employers Statewide (Year Tax Paid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.8</td>
<td>$56</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1.1 (through June 30)</td>
<td>$77 (through June 30)</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>0.9 (July 1 – Dec. 31)</td>
<td>$63 (July 1 – Dec. 31)</td>
<td>$290,000,000</td>
</tr>
<tr>
<td>2013</td>
<td>1.5</td>
<td>$105</td>
<td>$581,760,000</td>
</tr>
<tr>
<td>2014</td>
<td>1.8</td>
<td>$126</td>
<td>$893,832,000</td>
</tr>
<tr>
<td>2015</td>
<td>2.1</td>
<td>$147</td>
<td>$1,239,455,000</td>
</tr>
<tr>
<td>2016</td>
<td>2.4</td>
<td>$168</td>
<td>$1,916,567,000</td>
</tr>
<tr>
<td>2019</td>
<td>3.3</td>
<td>$231</td>
<td>$2,624,801,000</td>
</tr>
</tbody>
</table>

Tax increases continue until debt is paid or tax rate reaches 6%.

They won’t know unless you tell them. Write your legislator.

calchambervotes.com
More Liability for Using Independent Contractors

From Page 1

different determinations.

Each test includes extremely subjective factors that can easily be interpreted either in favor of or against the classification of an individual as an independent contractor.

One key factor that is present in all three tests is the degree of control the entity retains and exercises over the independent contractor or its employees. If the entity exerts too much control, the individual and its employees may be the employees of the contracting entity and therefore liable for the wages, taxes and insurance of those individuals.

Assuming a business is able to navigate any of the three tests correctly and properly classify the individual as an independent contractor, both the business and independent contractor enjoy benefits from the relationship. The independent contractor is able to control his/her profits, losses and schedule while the business manages its costs. The business is liable for the negligent acts of the independent contractor as an agent of the business.

Liability for any other willful conduct or labor violations of the independent contractor with respect to its employees, however, is borne by the independent contractor (which employs the individuals), not the business that contracts with the independent contractor.

Increases Liability

SB 556 completely ignores the legal

importance of the independent contractor relationship, and imposes liability against the contracting entity for any damages caused by the contractor or contractor’s employees, solely on the basis that the contractor or its employees wore a uniform that was substantially similar to that of the contracting entity or displayed the contracting entity’s logo on its vehicle that made the public believe such individuals were employees of the contracting entity.

To the CalChamber’s knowledge, it is unprecedented to extend liability for wage-and-hour violations or intentional conduct to a third party solely on the basis of appearances.

Rather, as set forth above, the main inquiry is whether that third party exerted sufficient control over the duties, performance and conduct of the contracting party to justify extension of liability. SB 556 undermines this analysis entirely.

Any doubt as to the intent of SB 556 to undermine the independent contractor relationship is easily resolved by the strategic placement of the bill’s provisions in the Labor Code instead of the Civil Code, which generally dictates liability between a principal and agent.

Specifically, “damages” under the Labor Code include wages, penalties, statutory fines and attorney fees, whereas the Civil Code generally resolves personal injuries or torts.

Including SB 556 within the Labor Code also triggers the Private Attorney General Act, which allows an individual to bring a “representative action” for unpaid wages and penalties for violations of the Labor Code, thereby expanding the threat of frivolous litigation against any entity that utilizes independent contractors.

No Harm

Finally, there is no evidence that any member of the public is confused, harmed, or damaged in any way based upon a mistaken belief that the independent contractor is an employee of the company.

Specifically, there is no proof that any company has refused to stand behind the services provided or resolve a customer complaint on the basis that the individual performing the services was an independent contractor versus an employee.

There also is no evidence that any member of the public was harmed based upon a mistaken belief as to the employment relationship between an individual and the contracting company. Accordingly, there is no consumer protection need for this bill.

Key Vote

SB 556 passed the Senate Labor and Industrial Relations Committee, 4-0.

Ayes: Leno (D-San Francisco), Lieu (D-Torrance), Padilla (D-Pacoima), Yee (D-San Francisco/San Mateo).

No vote recorded: Wyland (R-Escondido).

Staff Contact: Jennifer Barrera

NLRB Union Poster Rule Struck Down By Appeals Court

From Page 1

The rule, according to the federal court, treats the failure to post the National Labor Relations Act notice “as evidence of anti-union animus in cases involving, for example, unlawfully motivated firings or refusals to hire—in other words, because it treats such a failure as evidence of an unfair labor practice.”

The posting requirement was initially scheduled for implementation in November 2011. That deadline was first delayed until April 30, 2012, and then put on hold indefinitely pending the outcome of legal challenges.

Legal Challenge

This particular challenge was brought by the National Association of Manufacturers (NAM) and other business groups.

“This victory is a significant win for the business community,” said NAM President and CEO Jay Timmons, in a statement. “The NLRB’s intrusion would be to create hostile work environments where none exist.”

In a separate lawsuit, a federal trial court in South Carolina also concluded in April 2012 that the NLRB lacked the authority to promulgate the posting rule. The NLRB challenged the decision and the case is pending before the U.S. Court of Appeals for the Fourth Circuit. The appeal was heard in March 2013.

The NLRB has statutory jurisdiction over private sector employers whose activity in interstate commerce exceeds a minimal level.

Staff Contact: Gail Cecchettini Whaley
International Trade: Exports Continue as Bright Spots for California Economy

As we approach the middle of May, the nationally observed World Trade Week, it is clear that international trade is a continuing bright spot in the economic landscape, with export markets providing advantages for both California and the United States.

In 2012, California exports totaled $161 billion, according to the U.S. Department of Commerce. This was an increase from $159 billion in 2011. California maintained its perennial position as a top exporting state, exporting to more than 225 foreign markets.

Exports from California accounted for nearly 10% of total U.S. exports, with Mexico, Canada, China, Japan, and South Korea being the state’s top trading partners.

Governor Edmund G. Brown Jr.’s recent trip to China with a California business delegation was another step in strengthening the state’s trade with China as the delegation engaged with Chinese officials and business leaders to discuss the mutual benefits of investment and export in a wide range of sectors. The launch of the California Trade and Investment Office in Shanghai further signifies that California is accessible and open for business with China.

Trade Agreements Help

Because roughly 95% of the potential customers for U.S. goods and services live outside our borders, increasing exports will generate critical economic growth.

Agreements like the Trans-Pacific Partnership and the U.S.–European Union Free Trade Agreement (FTA), multilateral agreements currently being negotiated, ensure that the United States may continue to gain access to world markets, which will result in an improved economy and additional employment of Americans.

All trade agreements are critical elements of the U.S. strategy to liberalize trade through multilateral, regional and bilateral initiatives. Passage of these FTAs means the elimination of billions of dollars in tariffs for U.S. exports, as well as increased market visibility and benefits to California and the United States as a whole.

National Export Initiative

In 2010, President Barack Obama signed an executive order called the National Export Initiative, instructing the federal government to increase export promotion. It is hoped to double U.S. exports and support two million new jobs by the end of 2014.

Commentary

By Susan Corrales-Diaz

In 2012, U.S. exports hit an all-time record of $2.2 trillion and supported 9.8 million U.S. jobs, despite significant economic headwinds from abroad. Growth in exports of goods and services outpaced the growth of imports of goods and services in both dollar and percentage terms for the first time since 2007, with exports growing by $92.6 billion or 4.4%.

Exports as a share of U.S. gross domestic product (GDP) were 13.9% in 2012, tying the record set in 2011. Jobs supported by exports increased to 9.8 million in 2012, up 1.3 million since 2009. The growth in exports came despite a slowdown in the world economy and in world trade volumes.

International Commerce

Through the Trans-Pacific Partnership, the United States is seeking to help establish a trade and investment framework that supports U.S. job creation, promoting U.S. competitiveness, and expanding U.S. trade in the dynamic Asia-Pacific region. The United States also is seeking to advance core U.S. values in the agreement, such as transparency, labor rights, and environmental protection.

The Trans-Atlantic Economic Partnership is a key driver of global economic growth, trade and prosperity, and represents the largest, most integrated and longest-standing regional economic relationship in the world.

Together, the European Union and the United States are responsible for 11% of the world’s population, nearly half of global GDP, 30% of global merchandise trade, and 40% of world trade in services. A free trade agreement could increase economic output for both the U.S. and the E.U.

Global Leader

America’s standing as a world leader depends directly upon our competitive success in the global economy. For the past half century, the United States has led the world in breaking down barriers to trade and in creating a fairer and freer international trading system based on market economics and the rule of law. Increased market access achieved through trade agreements has played a major role in our nation’s success as the world’s leading exporter.

The California Chamber of Commerce supports expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.

Susan Corrales-Diaz, chair of the CalChamber Council for International Trade, is president of Systems Integrated in Orange.

World Trade Week is a national observance, traditionally held the third week of May. It began in Los Angeles in 1927.

www.calchamber.com/international

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● Links to research markets, buyers, suppliers
Legislative Outlook

An update on the status of key legislation affecting businesses. Visit www.calchambervotes.com for more information, sample letters and updates on other legislation. Staff contacts listed below can be reached at (916) 444-6670. Address correspondence to legislators at the State Capitol, Sacramento, CA 95814. Be sure to include your company name and location on all correspondence.

Aerospace Bills Pass to Senate Appropriations

Two California Chamber of Commerce-supported “job creator” aerospace bills passed the Senate Governance and Finance Committee with unanimous support on May 8.

- **SB 19 (Knight; R-Palmdale)** encourages aerospace industry employers to maintain and expand California operations by providing a full sales tax exemption for purchases of equipment used to construct the facilities designed to launch a space vehicle.

- **SB 412 (Knight; R-Palmdale)** encourages employers to maintain and expand their aerospace manufacturing operating in California by providing a full state sales-and-use tax exemption for purchases of aerospace manufacturing and research and development (R&D) equipment made through January 1, 2019.

California’s sales tax rate is the highest among states having a significant share of the national aerospace industry. The exemptions provided by SB 19 and SB 412 will help ensure that the revenue from this profitable industry remains in California.

Removing investment barriers to promote new machinery and equipment purchases in California as SB 412 does will foster productivity, make manufacturers more competitive, and allow them to keep employees and strengthen the state’s economy.

A new and improved tax treatment for aerospace manufacturing and R&D investments will send a strong message that California favors fair tax policies that make the state more business-friendly, even during difficult economic times.

SB 19 and SB 412 will be considered next by the Senate Appropriations Committee.

**Staff Contact: Jeremy Merz**

CalChamber-Sponsored Seminars/Trade Shows

More information: calchamber.com/events.

**Labor Law**

HR Strategies Webinars. CalChamber.
- May 16: Flexible Work Options; June 20: Multigenerational Workforce Challenge. (800) 331-8877.
- Ask the HR Compliance Experts Webinar. CalChamber. August 15. (800) 331-8877.

**Business Resources**

- Social Media at Work is No LOLing Matter. Worklogic HR. May 21, Bakerfield or online via live stream. (661) 695-5163.

**International Trade**

- The BRICS (Brazil, Russia, India, China and South Africa) Countries Conference. Monterey Bay International Trade Association. May 24, Monterey. (831) 335-4780.
- Think Asia, Think Hong Kong. Hong Kong Trade Development Council. June 14, Los Angeles. (212) 838-8688.
More Environmental Litigation Likely If Pending Senate, Assembly Bills Pass

Two California Chamber of Commerce—opposed “job killer” bills that increase litigation under the California Environmental Quality Act (CEQA) are being actively considered by the Legislature. AB 953 (Ammiano; D-San Francisco) invites more litigation over CEQA projects by overturning a line of court decisions, thereby allowing project opponents to challenge environmental impact reports (EIRs) that don’t evaluate and mitigate impacts related to conditions and physical features in the environment like smog and fault lines.

In other words, it would require project applicants to evaluate and mitigate for effects of the environment on their projects, not just the effects their projects might have on the environment, expanding CEQA and adding costs to the project approval process.

AB 953 passed the Assembly Appropriations Committee this week and will be considered next by the entire Assembly.

Similar legislation, SB 617 (Evans; D-Santa Rosa), was approved last week by the Senate Environmental Quality Committee, and is scheduled to be considered May 13 by the Senate Appropriations Committee.

Update Needed

Both AB 953 and SB 617 would expand CEQA’s requirements at a time when the Legislature should be more appropriately focused on updating the 43-year-old law to address legitimate concerns about unnecessary litigation while reinforcing the existing statute’s core purpose of environmental protection and public review.

Cost Concerns

Complying with CEQA imposes considerable costs on project proponents.

By expanding the range of factors that must be considered and mitigated for under a CEQA analysis, AB 953 and SB 617 increase the cost of performing analyses of proposed projects and the cost of the projects themselves.

In addition, both bills would provide new opportunities for litigation, allowing project opponents to challenge the adequacy of an EIR for a host of new reasons.

For example, in Ballona v. City of Los Angeles, one of the cases these bills would overturn, the plaintiff claimed that the EIR failed to analyze the impacts of sea-level rise on the project, which was located two miles from the coast. If either AB 953 or SB 617 passes, that would give opponents of projects the chance to challenge any project near the coast for the same reason.

The bills would also open projects up to challenges for failure to adequately consider the effects of earthquakes, wildfires, flooding, smog and other physical conditions in the environment, or for failure to mitigate for the speculative harms those conditions could create for a project.

Given the range of physical conditions to be considered, virtually every project in the state could be affected, and because litigation is so expensive and can take years, this could add millions in costs for businesses and state and local governments each year, and considerably slow down projects.

Attack on CEQA

AB 953 and SB 617 are an attack on the core of CEQA, namely, that CEQA requires consideration of the impacts of a project on the environment, not the other way around.

A variety of other California laws and regulations already address issues such as floods, fire hazards, and earthquakes (for example, natural issues that may have an impact on projects).

Both bills ignore these robust bodies of law and inject into CEQA further uncertainty and increased litigation costs for projects ranging from affordable housing and hospitals to schools and infrastructure.

Court Rulings

Courts have repeatedly held that CEQA is not concerned with the effect of the environment on proposed projects. As a 1995 appellate court ruling commented, consideration of the effect of the environment on the project is “beyond the scope of CEQA.”

The same appellate court noted in a 2009 decision that the purpose of an EIR is to identify the significant effects of a project on the environment, not the significant effects of the environment on the project.

The review and approval of proposed projects in California are governed by a host of laws to ensure the health, safety, and environmental protection of Californians and the communities in which they live. AB 953 and SB 617 ignore these laws and assume CEQA is the only law in the land.

Ironically, one of the results of AB 953 and SB 617 would be to drive development away from infill sites and toward the urban fringe—a dynamic that flies in the face of SB 375, the 2008 law aiming to reduce greenhouse gas emissions from the transportation sector, and a host of smart growth policies throughout the state.

Both bills duplicate existing laws that are more effective than CEQA.

Key Votes

- SB 617 passed Senate Environmental Quality on May 1, 7-2.
  Ayes: R. Calderon (D-Montebello), Corbett (D-San Leandro), Hancock (D-Oakland), Hill (D-San Mateo), Jackson (D-Santa Barbara), Leno (D-San Francisco), Pavley (D-Agoura Hills).
  Noes: Fuller (R-Bakersfield), T. Gaines (R-Rocklin).
- AB 953 passed Assembly Appropriations on May 8, 11-5:
  Ayes: Gatto (D-Los Angeles), Ammiano (D-San Francisco), Bocanegra (D-Pacoima), Bradford (D-Gardena), I. Calderon (D-Whittier), Campos (D-San Jose), Eggman (D-Stockton), Gomez (D-Los Angeles), Pan (D-Sacramento), Quirk (D-Hayward), Weber (D-San Diego).
  Noes: Harkey (R-Dana Point), Bigelow (R-O’Neals), Donnelly (R-Twin Peaks), Linder (R-Corona), Wagner (R-Irvine).

Absent/abstaining/not voting: Hall (D-Los Angeles).

Staff Contact: Mira Guertin
Your Guide to Trends and Court Decisions Impacting California Employers

Think it's OK to have Aunt Sally run the register a few nights a week? Why not, she's retired and likes to help. Actually, Aunt Sally's willingness to help can land her employer in trouble with the Division of Labor Standards Enforcement if she isn't treated like other employees.

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