Employee, contractor or volunteer?

A guide for community organisations

Feb 2019
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Overview
Overview

This guide covers:
► the importance of correctly classifying different working relationships
► the basic legal differences between employees, independent contractors and volunteers, and
► an overview of some of the main legal obligations an organisation owes to its employees, independent contractors and volunteers

The law recognises many different categories of relationships where one party (a worker) performs work for another party in exchange for payment or reward. These include, among others, the relationships of ‘employer and employee’ and ‘principal and independent contractor’.

The law also recognises a separate category of worker known as a ‘volunteer’. This type of worker performs work for another without an expectation of, or a legal right to, payment or reward.

It’s important for your community organisation to know which category of ‘worker’ is undertaking work in your organisation. This is because different legal entitlements and obligations apply, depending on whether the worker is an employee, an independent contractor or a volunteer.

For example, if your organisation incorrectly classifies a worker as a contractor, you may fail to provide them with their legal entitlements or fail to meet your obligations under tax, insurance and superannuation law. This could result in legal claims being made against your organisation, and your organisation may be found liable to pay penalties.

This guide is to help not-for-profit community organisations to understand how the law treats different kinds of working relationships.

Parts 1, 2 and 3 of this guide explain the differences in law between an ‘employee’, ‘independent contractor’ and ‘volunteer’ respectively.

Part 4 briefly explains the nature of a ‘vocational placement’.

Part 5 sets out the legal obligations an organisation owes to different types of workers in respect of pay, leave, superannuation and other matters.

The guide concludes in part 6 by explaining some of the consequences of wrongly classifying an employee as a contractor or volunteer.

Useful Resources are listed at the end of the guide.
Part 1

Employees
When is a worker an ‘employee’?

The legal distinction between a worker who is an ‘employee’ and a worker who is an ‘independent contractor’ or ‘volunteer’ is not always easy to make.

Although a great deal of employment law is now prescribed by legislation, the issue of whether a worker is an employee, independent contractor or volunteer is based on principles that have been established through case law over time (judge-made law). In such cases, the courts and other relevant tribunals have considered whether a ‘worker’ is an ‘employee’ by assessing the entire relationship between the worker and the organisation.

To determine whether a worker is an ‘employee’ or an ‘independent contractor’ requires consideration of a number of different elements of the working relationship.

A worker will normally be found to be an employee when the following elements exist:

**Employee attributes**

<table>
<thead>
<tr>
<th>Type of work</th>
<th>Payments and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>• performs ongoing work under the control, direction and supervision of the employer</td>
<td>• is paid for time worked</td>
</tr>
<tr>
<td>• must perform the duties of their position</td>
<td>• is paid regularly (such as, weekly, fortnightly or monthly) and has income tax withheld from their salary by their employer</td>
</tr>
<tr>
<td>• provides their personal services and cannot delegate their work to ‘outsiders’ (ie. employees can’t arrange for their work to be done by someone else who is not another employee)</td>
<td>• is entitled to have superannuation contributions paid into a nominated superannuation fund by their employer</td>
</tr>
<tr>
<td>• work hours set by the employer, an enterprise agreement or modern award (see part 5 below for further information)</td>
<td>• is entitled to paid and unpaid leave (such as, sick leave, personal/carers' leave, annual or recreation leave, or long service leave)</td>
</tr>
<tr>
<td>• is recognised as a part of the employer’s business or holds themselves out to the public as being part of that business (for example, wearing a uniform, using business cards)</td>
<td>• is covered by professional indemnity, public liability and workers compensation insurance premiums paid by the employer</td>
</tr>
<tr>
<td>• does not bear commercial risks and cannot make a ‘profit’ or ‘loss’ from the work performed</td>
<td>• generally has all ‘tools of the trade’ provided by the employer to carry out the work (for example, desk, computer, stationery)</td>
</tr>
</tbody>
</table>

Other factors may also be relevant and of importance in particular cases. While it is often straightforward to determine whether or not a worker is an employee, where there is doubt, the organisation should seek legal advice.
What does it mean for our organisation if a worker is an 'employee'?

The law requires that employers provide their employees with certain benefits. Examples of these benefits, as above, include paid leave and superannuation, but there are many others. The law also requires that employers treat their employees in a certain way. An example may be to provide an employee with a notice period (or payment instead of notice) before terminating their contract of employment. A summary of the basic legal entitlements that employers owe to their employees is set out below in part 5, ‘Legal obligations owed by community organisations’.

Independent contractors and volunteers are not owed all of the same entitlements as employees. This is why it is important for your community organisation to be clear about the terms on which a person becomes involved in your community organisation.

Tip

It’s a good idea to have a written agreement documenting the nature of the relationship between your community organisation and any person doing work for it. This way both parties will be clear about the nature of the relationship.

However, merely labelling a worker an employee or independent contractor does not mean they are in fact an employee or independent contractor. If the matter went to court, the court would look beyond the label and would examine the substance of the work relationship as a whole. To understand more about the risks of inaccurately describing a worker’s status, see part 6 below, ‘Calling an employee a ‘contractor’ or a ‘volunteer’’.

Caution

There are a range of legal entitlements that apply differently to different types of workers.

Even though it is generally true that employees are owed more entitlements than volunteers or independent contractors, there are some workplace entitlements that aren’t so clearly confined. For example, many protections under Occupational/Workplace Health and Safety laws apply to broader categories of workers, including volunteers and independent contractors. There are also circumstances in which independent contractors are treated as employees for specific purposes, like superannuation entitlements or worker’s compensation.
Part 2

Independent contractors
Independent contractors

When is a worker an 'independent contractor'?

There are many circumstances in which a community organisation may wish to engage an independent contractor or consultant to provide services to the organisation. For example, when the organisation has a short term project for which it requires someone with specialist skills to complete a task, such as an independent evaluation of the organisation's services or programs. The organisation hiring a contractor is sometimes referred to as the ‘principal’.

The legal test to determine whether a worker is an employee or an independent contractor requires consideration of a number of different elements of the working relationship. Unlike employees who are seen to be subject to the control and direction of their employer, independent contractors are often recognised as running their own business and providing services under commercial, rather than employment, contracts.

A worker will normally be found to be an 'independent contractor' when the following elements exist:

### Independent contractor attributes

<table>
<thead>
<tr>
<th>Type of work</th>
<th>Payments and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>• has control over how to carry out their work and has the expertise to do so</td>
<td>• is paid for results achieved (for example, submits an invoice for work completed or is paid at the end of a project)</td>
</tr>
<tr>
<td>• also provides services to the general public and other businesses</td>
<td>• pays their own superannuation and GST and holds own insurance policies</td>
</tr>
<tr>
<td>• is contracted to work for a set period of time or do a set task and can decide what hours are required to complete that work</td>
<td>• may have their own registered business and Australian Business Number (ABN)</td>
</tr>
<tr>
<td>• is free to accept or refuse work beyond the requirements of any current contract with the organisation</td>
<td>• provides all or most of the necessary materials and equipment to complete the work (for example, uses their own tools)</td>
</tr>
<tr>
<td>• is usually free to delegate work to others</td>
<td>• is in a position to make a profit or loss from work</td>
</tr>
</tbody>
</table>

Other factors may also be relevant in particular cases.

The Australian Tax Office (ATO) has developed an employee/contractor decision tool which you can use to help you understand whether individual workers in your organisation are employees or contractors in order to comply with your tax and superannuation obligations.

What does it mean for our organisation if a worker is an 'independent contractor'?

Many of the laws which protect employees’ rights and provide for their entitlements don’t apply to independent contractors, or apply differently.
A summary of the basic legal entitlements and obligations that apply to independent contractors is set out below in part 5, ‘Legal obligations owed by community organisations’.
Part 3

Volunteers
Volunteers

Who is a 'volunteer'?

There is no single definition of what makes a worker a volunteer and there is no legal definition of a volunteer in Australia.

Volunteering Australia describes volunteering as: ‘Time willingly given for the common good and without financial gain.’ Volunteering Australia has also released guidelines around this definition that can be found on its website.

The Fair Work Ombudsman (FWO) has identified the following characteristics of a genuine volunteering arrangement:

- a volunteer is someone who does work for the main purpose of benefiting someone else
- the organisation and individual did not intend to create a legally binding employment relationship
- a volunteer is under no obligation to attend the workplace or perform work, and
- a volunteer does not expect to be paid for their work

The more formalised that volunteer engagements become, the greater the possibility that an employment relationship could be found to exist. For example, rostering workers on for shifts that they are required to attend may suggest that they are employees, rather than volunteers. However, it is less likely that an employment relationship will be found if the worker undertakes the work for selfless purposes and within the not-for-profit or community sector.

Community organisations need to be very careful that they do not inadvertently create an employment relationship with volunteers. If it is found that a volunteer is in fact an employee, they will be entitled to:

- a minimum wage
- the National Employment Standards, and
- the terms of any applicable awards or enterprise agreements (for example, annual leave loading, overtime pay)

Awards and enterprise agreements are discussed in part 5 below

Volunteer attributes

<table>
<thead>
<tr>
<th>Type of work</th>
<th>Payments and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>works or provides services on an ‘ex-gratia’ basis, which means that they do so voluntarily, without a legally enforceable obligation to do so and with no expectation of payment for work performed</td>
<td>generally, has no legally enforceable right to receive payments or benefits</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>any agreement between the volunteer and the organisation (whether verbal or written) does not contain any evidence that the parties intended to enter into a legally binding contract</td>
<td>may receive payments like ‘honoraria’ or allowances, or non-cash benefits such as free use of facilities or free or reduced price entry into an event (although as above, no legally enforceable right)</td>
</tr>
<tr>
<td></td>
<td>However, such payments or benefits may attract taxation obligations, and if regularly received and/or of considerable value, may add weight to</td>
</tr>
</tbody>
</table>
### Employee, contractor or volunteer?

<table>
<thead>
<tr>
<th>an argument that the ‘volunteer’ is an employee or contractor</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• the volunteer arrangement can be brought to an end at any time, either by the volunteer or the organisation</td>
<td>• may be reimbursed for out-of-pocket expenses</td>
</tr>
</tbody>
</table>

In circumstances where it appears that a volunteer is in receipt of some benefit for the services they provide, distinguishing between an employee and a volunteer can be difficult. This may also pose problems in determining an organisation’s tax liabilities.

### Tip

The best way to be clear about the relationship between your community organisation and a volunteer is to write it down, for example, in the form of a volunteer agreement. This agreement should ideally include an express acknowledgement from the volunteer that they:

- are a volunteer and not an employee
- don’t have a contract with the organisation, and
- don’t have any intention to create a legal relationship with the organisation

The volunteer may also acknowledge that they have a social, cultural, religious or other community motivation for performing the work. However, this is not essential.

Generally speaking, volunteer agreements must not be legally binding. This is because in a volunteer relationship there must be no intention to impose a legally binding obligation on the volunteer to attend work and perform work.

There may however be some instances where you do need to create a legally binding relationship between your organisation and the volunteer (for example, clauses relating to confidentiality or intellectual property). See part 5 of our National Volunteer Guide for more information on how to make this work with your volunteer agreement.

### Related Not-for-profit Law resources

For more information about distinguishing between volunteers and other types of workers, see our ‘National Volunteer Guide, part 2 - Volunteer, employee or independent contractor’.

### What does it mean for our organisation if a person is a ‘volunteer’?

Many laws that protect employees’ rights and entitlements apply differently to volunteers or not at all.

A summary of the basic legal entitlements and obligations that apply to volunteers is set out below in part 5, ‘Legal obligations owed by community organisations’. 
Caution

It’s important to understand the difference between unpaid worker arrangements. There are certain obligations that may arise under legislation and contract when work performed falls outside the scope of traditional volunteer arrangements. There are a variety of unpaid work arrangements, including court-ordered volunteering and fine repayment schemes, mutual obligation activities, vocational placements, unpaid internships and work experience.

For more information about unpaid workers, and an overview of the legal obligations associated with each of these arrangements, watch our free webinar ‘Volunteer or unpaid worker?’.
Part 5
Legal obligations owed by community organisations
Legal obligations owed by community organisations

This part contains a brief overview of some of the different legal obligations that a community organisation owes to its:

• employees
• independent contractors, and
• volunteers

The main obligations owed by an organisation to its employees are quite detailed and are only summarised very briefly below.

**Minimum employment standards**

**Obligations to Employees**

All employees are entitled to 10 minimum standards of employment which are set out in the *Fair Work Act 2009* (Cth). These minimum standards are known as the National Employment Standards (NES) and relate to the following basic entitlements:

- maximum weekly hours
- requests for flexible working arrangements
- parental leave and related entitlements
- annual leave
- personal/carer's leave, compassionate leave and unpaid family and domestic violence leave
- community service leave
- long service leave
- public holidays
- notice of termination and redundancy pay and
- Fair Work Information Statement

**Obligations to Independent contractors**

Independent contractors have no statutory entitlement to minimum wages or other benefits such as paid leave. The NES don’t apply to them. They are free to negotiate the terms of their contracts with the organisations that hire them. However, independent contractors are entitled to some ‘general protections’ set out in the *Fair Work Act* including protection from unlawful discrimination.
Independent contractors and organisations may also have rights under the *Independent Contractors Act 2006* (Cth) if either party is a ‘constitutional corporation’ (see note below). Under that Act, either party can apply to a court to have the contract (or a part of it) revoked or varied on the grounds that it is ‘harsh’ or ‘unfair’. This could happen, for example, if the independent contractor believes that they are being paid at a rate that is, or is likely to be, less than an employee would get for performing similar work.

**Note**

A ‘constitutional corporation’ is a body that is incorporated under a federal or state Act (for example, a company limited by guarantee or incorporated association), and that conducts trading or financial activities.

The key question for most not-for-profit organisations in determining whether they are a constitutional corporation is whether they are ‘trading’. ‘Trading’ in this context means the provision of goods or services for payment as well as the provision of services carried on for the purpose of earning revenue. To meet this definition, trading may only be a small part of the organisation’s activities, and it doesn’t matter that the income from trading activities is used for charitable purposes. Activities classified by the courts as trading activities include: providing services in return for a fee or charge, selling goods from a shop or stall, international student fees, patient charges, fundraising activities, charging car parking fees, ticket sales and sales of publications, advertising and broadcasting, and charging for admission.

The receipt of government grants and subsidies to not-for-profit organisations are generally not regarded by the courts as trading activities.

If you are uncertain as to whether your organisation fits the description of a ‘constitutional corporation’ you can seek legal advice.

**Obligations to Volunteers**

*The Fair Work Act 2009* (Cth) and the *Independent Contractors Act 2006* (Cth) don’t apply to volunteers.

A volunteer doesn’t have any legally enforceable right to hours of work or payment.

Some organisations may have policies about paying out-of-pocket expenses and other payments for volunteers, but generally there is no legally enforceable obligation for the organisation to do so.

Your organisation may wish to be guided by Volunteer Australia’s National Standards for Volunteer Involvement in respect to best practice for management of volunteers (note this does not cover legal issues in managing volunteers).

**Application of industrial instruments (modern awards and collective agreements)**

**Employees**

Employees and employers in certain industries and occupations may be bound by an industrial instrument. These instruments contain additional minimum entitlements that supplement the NES (for example, minimum wages for particular jobs, penalty and overtime rates, loadings and allowances). Types of industrial instrument include:

- **Modern awards**, which are industry- or occupation-based and cover all employers and employees in that sector. Most industries have a modern award.
- **Collective agreements** (also known as enterprise agreements), which set out conditions of employment for a group of employees at one or more workplaces, and which apply instead of a modern award. The pay rate in a collective agreement cannot be less than the pay rate in the relevant modern award.
In addition, employers and employees are bound by determinations of the Fair Work Commission, an independent body which operates like a court and hears workplace disputes. For example, the Fair Work Commission may ‘determine’ that an employee was dismissed unfairly and should be reinstated.

**Independent contractors**

Independent contractors are not covered by the terms of modern awards, enterprise agreements or determinations of the Fair Work Commission. An independent contractor’s entitlements are set out in the contract between the contractor and the organisation.

**Volunteers**

Volunteers are not covered by the terms of industrial instruments or determinations of the Fair Work Commission.

**Long service leave**

**Employees**

Employees are generally entitled to long service leave after a long period of working for an employer. For most employees, their long service leave entitlements come from the laws in the state or territory where they are working. These laws set out how long an employee has to work to get long service leave and details of how long service leave is calculated.

**Related resources**

To find out more about long service leave entitlements, contact the long service leave agency in your state or territory. For a list of these agencies, see the Fair Work Ombudsman’s website.

**Superannuation**

**Employees**

Your organisation is required to make superannuation contributions for all employees (whether full time, part time or casual) who are aged between 18 and 69 and paid $450 or more (before tax) in a calendar month.

Your organisation may also be required to make superannuation contributions for employees under the age of 18 who work more than 30 hours per week. This is required by the Superannuation Guarantee Charge Act 1992 (Cth).

**Independent contractors**

Under superannuation law, the definition of an employee is expanded to include a person who is paid under a contract for the hours they work (rather than to achieve a result). The effect of this is that in certain circumstances your organisation may be required to make superannuation payments on behalf of workers you consider to be independent contractors.

The ATO has developed a Superannuation Guarantee (SG) eligibility decision tool to help you understand whether you need to make superannuation contributions for individual workers (including any contractors who are treated as employees for superannuation purposes).

However, these situations can be complex and you should seek legal advice in case of doubt.

**Volunteers**

Volunteers have no legal entitlement to superannuation.
Work health and safety

Employees

Your organisation has a legal duty under common law to take reasonable care to avoid exposing employees to likely risks of injury. There is also legislation in every state and territory regarding workplace health and safety (WHS). All states and territories except Victoria and Western Australia have adopted Commonwealth WHS legislation (referred to here as WHS Laws).

Although there are some differences across states and territories, a common element is a duty is to provide, so far as is reasonably practicable, a safe working environment and safe practices and systems of work.

If your organisation operates in any state or territory apart from Victoria and WA

• It will have to comply with the WHS Laws if it is considered to be a ‘person controlling a business or undertaking’. Subject to the next paragraph, this is a broad category that encompasses not-for-profit organisations that run an operation or enterprise of an ongoing, organised nature.

• There is an exception for ‘volunteer associations’, which are organisations that do not employ anyone and consist solely of volunteers. If your organisation is entirely volunteer run it will not be subject to the WHS Laws. However, if it employs anybody (even just one person on a casual or part-time basis) it must comply with the WHS Laws.

• Once an organisation falls within the WHS Laws it will owe WHS duties to all workers, that is – any person who carries out work in any capacity for the organisation, whether they are paid or not.

Caution

Even if your organisation doesn’t fall within the WHS Laws, there are common law duties to provide employees and other workers with a safe workplace. All employers have a duty to take reasonable care to avoid exposing employees (and others who might be exposed to risks from the organisation) to reasonably foreseeable risks of injury.

• The duties themselves include:
  – An overarching duty to ensure as far as reasonably practicable the health and safety of workers the organisation engages, as well as other persons such as clients or customers. This duty is very broad.
  – Duties regarding workplace safety if the organisation ‘manages or controls a workplace’. A ‘workplace’ in this context means any place where work is carried out.
  – Various other duties such as a duty to report any incidents and to consult with workers.

If your organisation operates in Victoria

• It will have to comply with the Victorian occupational health and safety laws (OHS Laws) if it is an ‘employer’, that is – if it has at least one employee or apprentice.

Even if the organisation is completely volunteer based, if it manages or controls a workplace (that is, anywhere where employees or self-employed persons work), it may have duties regarding workplace safety.

Note that there is no ‘volunteer association’ exception in Victoria, so even entirely volunteer-run organisations may have OHS duties.

• The OHS Laws include duties to provide a safe working environment, monitor the conditions of the workplace and the health of employees, and protect other people from risks arising from the organisation’s activities. There are various other duties too.

If your organisation operates in Western Australia

• It will have to comply with Western Australia’s occupational safety and health laws (OSH Laws) if it is an ‘employer’, that is – if it has at least one employee or apprentice. Even if the organisation is completely volunteer based, if it has control of a workplace to any extent (that is, anywhere where employees or
self-employed persons work), it may have duties regarding workplace safety. So, as for Victoria, there is no ‘volunteer association’ exception.

- The OSH Laws include duties to provide and maintain a working environment in which employees are not exposed to hazards, and not to adversely affect the safety and health of other persons. There are various other duties too.

**Independent contractors**

If your organisation is bound by the WHS Laws, as above, it will owe WHS duties to all workers. The definition of ‘workers’ is broad and includes independent contractors.

If your organisation falls within Victoria’s OHS Laws or WA’s OSH Laws, its duties will generally extend to independent contractors too.

**Volunteers**

If an organisation falls within the WHS Laws, it will owe WHS duties to all workers – which includes volunteers. Although the ‘volunteer association’ exception means that organisations which are fully run by volunteers are exempt from the WHS Laws, if an organisation has *at least one employee*, it will owe WHS duties to all workers including volunteers.

For organisations covered by the Victorian OHS Laws or WA OSH Laws, most of their duties will apply to volunteers. As there is no ‘volunteer association’ exception, even if your organisation is completely volunteer-based, it will be bound by WHS laws if it controls or operates a ‘workplace’.

**Caution**

It’s important to note that even if your organisation is not covered by the relevant legislation, or if a particular duty does not apply to volunteers under the legislation, your organisation owes a general duty of care to its volunteers and should adopt effective practices to ensure the safety of volunteers while working for the organisation.

In particular, you should be aware of volunteers with special needs, who may require a higher standard of care and a more intensive level of supervision in their work for the organisation.

**Insurance**

**Employees**

Employers are required by all state and territory health and safety laws to take out workers’ compensation insurance to cover their employees and the organisation. Workers’ compensation insurance provides benefits to employees, usually including lost wages and medical expenses, if an employee is injured at work or becomes sick due to their work. The specific requirements in each state and territory vary.

Depending on its activities and functions, your organisation may also need to take out public liability and professional indemnity insurance to cover its own liability and that of its employees to other people.

**Independent contractors**

Unlike employees, independent contractors are typically required to organise their own insurance cover, such as accident compensation, public liability and professional indemnity. In some cases, both the
organisation engaging a contractor and the contractor itself may have insurance and compensation obligations.

When you engage a contractor, you should check whether they have the necessary insurance because your organisation’s policies may not cover them (you should understand what your policies do and do not cover). Workers’ compensation insurance does not usually cover contractors. These situations can be complex and you should seek legal advice in cases of doubt.

**Volunteers**

Generally, volunteers are not covered by workers’ compensation insurance. Therefore, it is a good idea for your organisation to take out personal accident insurance to cover your volunteers for out of pocket medical expenses if they are injured while working on behalf of your organisation. You should also ensure that your public liability policy covers your organisation for loss caused by negligent acts or omissions of your volunteers.

If you are a volunteer, it is important to check that the organisation you volunteer for has insurance that covers you and the activities you are engaging in.

**Related resources**

For more information about insurance for your community organisation, see our [Risk and Insurance guide](#).

For more information about the workers’ compensation scheme in your state or territory, contact the relevant regulator. For a list of the different regulators, see the Resources section at the end of this guide.

**Taxation**

**Employees**

If your community organisation is an employer, it is required to withhold income tax from wage payments to employees ([PAYG withholding](#)) each pay period. The organisation must then provide this tax to the Australian Taxation Office (ATO). The ATO website contains a [tax withheld calculator](#) that you can use to work out how much tax you need to withhold from payments you make to your employees (and, in some cases, other workers) each pay period (week, fortnight or month).

Other taxes, such as fringe benefits tax, may also apply to employees. In addition, depending on the size of your organisation and the total remuneration paid by it in its payroll, it may also be liable to pay payroll tax to the State Revenue Office.

**Caution**

Some not-for-profit community organisations are eligible for an exemption from paying income tax. This means the organisation doesn’t have to pay tax on any income that comes into the community organisation (for example, on money received as part of a grant).

However, this exemption only applies to the community organisation’s income tax liability. It does not mean that employees of the community organisation are exempt from paying income tax. All employers are required to comply with the ATO’s income tax withholding obligations in relation to payments of income to employees.
Independent contractors

Typically, independent contractors are paid after they provide a tax invoice to your organisation. The independent contractor is responsible for any income tax liability that may flow from that payment. As a general rule, the community organisation usually does not have to withhold income tax in respect of payments made to independent contractors.

However, there is also scope under taxation laws for independent contractors to enter into voluntary agreements authorising the organisation to withhold taxation from payments. Before entering into such a voluntary agreement with an independent contractor, your organisation should contact the ATO or seek legal advice to ensure that the necessary requirements for an arrangement of this type are met.

If your organisation is registered or required to be registered for GST purposes, it may have GST obligations in relation to services provided by an independent contractor.

It’s important to note that certain tax laws (such as payroll tax laws) apply an expanded definition of employee or deem an independent contractor to be an employee in some cases. The effect of this is that in certain circumstances your organisation may be liable to pay tax in relation to workers that would otherwise be considered independent contractors.

Volunteers

In certain circumstances volunteers may be provided with payments or other benefits in the course of undertaking work for an organisation. This may include cash payments, non-cash benefits, or both. These payments are given various descriptions, including honoraria, reimbursements and allowances. Honorary or ex-gratia payments by the organisation to a volunteer are generally not legally enforceable.

How an amount is described does not determine its treatment for tax purposes. Whether a payment is assessable income in the hands of a volunteer depends on the nature of the payment and the recipient’s circumstances.

As a general rule, volunteers don’t have to pay tax on payments or benefits they may receive in their capacity as a volunteer for a not-for-profit organisation. Community organisations are similarly not liable to withhold income tax or fringe benefits tax for payments or benefits they provide to volunteers. There are, however, exceptions to these general rules and the ATO has further information on this issue.

Related resources

For more information about the tax obligations of community organisations, see the resources at the end of this guide.

Termination

Employees

In relation to the termination of their employment, most full-time and part-time employees are entitled to a notice period (or pay in lieu of such a notice period) in accordance with the NES. If the employee is covered by a modern award or enterprise agreement or has a written contract of employment, that award, agreement or contract may specify a greater period of notice. Casual employees are not entitled to notice of termination unless their contract of employment provides for one.

If your organisation dismisses an employee for a reason that contravenes the general protection provisions of the Fair Work Act 2009 or for a reason that is discriminatory, or if the termination is 'harsh, unjust or unreasonable', the employee may be able to make a claim against your organisation.

Legal advice should always be sought before proceeding with the termination of any employee’s employment.
Independent contractors

If your organisation has a contract with an independent contractor, that contract will ordinarily end when the independent contractor has completed the work and received payment from your organisation. However, if your organisation wants to terminate the agreement before the completion of the work, it can only do so in accordance with the terms of the contract or if otherwise allowed by the law (for example, it may be possible to terminate the contract if it cannot be completed for reasons outside the control of either party).

You need to check the terms of your contract to see:

• whether your organisation can terminate by giving notice, and
• whether you are required to pay the contractor for costs they incurred up to the date of termination

These situations can be difficult and you should seek legal advice, particularly if the contract does not have any express provision dealing with termination.

Your organisation may also be able to terminate a contract if the contractor is in serious breach of the contract. This will depend on the terms of the contract, so again, it is important to look carefully at the terms. For example, some contracts require you to give the independent contractor a ‘notice to remedy a breach’ (that is, an opportunity to fix the breach before terminating the agreement).

Unlike employees, independent contractors can’t make unfair or unlawful dismissal claims. However, if your organisation attempts to terminate its contract with an independent contractor other than in accordance with the terms of that contract, the independent contractor may take legal action against your organisation for breach of contract.

It’s also worth noting that if a person whom your organisation regards as an ‘independent contractor’ can establish in court that they are properly classified as an employee (see table in part 1 above for attributes of an employee), then they will be able to make any claims available to an employee, including an unfair dismissal application.

Volunteers

There is no notice period or other requirements to terminate a volunteer relationship – the voluntary nature of the relationship means that it can be ended by either party at any time.

Volunteers can’t make unfair or unlawful dismissal claims. However, it’s worth noting that if a person who your organisation said was a ‘volunteer’ is able to establish in court that they had the attributes of an employee (see table in part 1 above for the attributes of an employee) and the court accepts that they were an employee, then they may be entitled to lodge an action for unfair dismissal or make a claim for other employment benefits.
Part 5

Calling an employee a 'contractor' or a 'volunteer'
Calling an employee a 'contractor' or a 'volunteer'

Often the parties to a contract for the performance of work will try to describe the legal nature of the relationship between them.

For example, a contract may state:

- ‘this agreement does not create a relationship of employment’ or
- ‘the parties agree that their relationship is one of principal and independent contractor’

While it is a good idea to write down the terms of the relationship in a contract so both parties are clear about the arrangement, the label you give your worker is not decisive.

The question of whether a person is an ‘employee’, an ‘independent contractor’, or ‘volunteer’ is decided by looking at the entire relationship between the worker and the other party. The way a contract classifies or labels a worker is just one factor that will be considered. If the matter went to court, the court would look behind the description of a relationship in documents to what is actually occurring in practice.

So, if a person who is called an ‘independent contractor’ actually has all or many of the attributes of an employee (see table in part 1 above for employee attributes), the court may decide that the person is an ‘employee’, and entitled to the legal benefits of being an employee.

Similarly, if a person who is called a ‘volunteer’ actually has all or many of the attributes of an employee, then that person could try to argue in a court that they are an ‘employee’ and entitled to the legal benefits of being an employee.

Where an employer intentionally tries to disguise an employment relationship as an independent contracting arrangement (usually for the purpose of avoiding having to provide the worker with minimum rates of pay and leave or superannuation entitlements), they may face serious penalties under the Fair Work Act 2009. The Act prohibits these kinds of ‘sham contracting arrangements’ by making it an offence for organisations to:

- intentionally disguise a worker’s employment or an offer of employment as an independent contracting arrangement
- dismiss or threaten to dismiss a worker for the sole or dominant purpose of re-engaging the worker as an independent contractor, or
- make a knowingly false statement for the purpose of persuading a worker to become an independent contractor

Related Not-for-profit Law resources

For more information about clarifying a volunteer relationship, go to the [volunteers page](#) on the Not-for-profit law website.

Tip

Be careful not to falsely or incorrectly label an employee as an independent contractor (for example, in a written contract or letter of engagement).

If the true legal nature of the relationship between the parties is that of employer and employee, the parties can’t alter the truth of that relationship by calling it something else. If you are unsure of the true nature of the relationship between your organisation and a worker, you should seek legal advice.
Resources

Related Not-for-profit Law resources
The Not-for-profit Law website has resources on the following related topics:

▶ Volunteers
  This section of the Information Hub is designed to help organisations understand the laws that apply to it and its volunteers.

▶ Employees
  This page provides resources on the recruitment and engagement of employees, employee entitlements, the Fair Work System, termination and resignation and disputes with employees.

▶ Insurance and risk
  This section covers insurance, negligence, work health and safety, Personal Property Securities Register and criminal conduct.

▶ Tax
  The section explains Deductible Gift Recipient Endorsement, Fringe Benefits Concessions, Goods and Services Tax, income tax exemptions and state tax laws.

Legislation

▶ Fair Work Act 2009 (Cth)
▶ Independent Contractors Act 2006 (Cth)
▶ Superannuation Guarantee Administration Act 1992 (Cth)

Other related resources

▶ Australian Tax Office (ATO)
  The ATO has designed the following tools which may help you work out your obligations:
  – Employee/contractor decision tool
  – Superannuation Guarantee eligibility decision tool
  – Tax withheld calculator

▶ Fair Work Ombudsman (FWO)
  The FWO provides information and advice for both workers and organisations about workplace rights and obligations.

▶ Volunteering Australia
  Volunteering Australia has published National Standards for Volunteer Involvement, that reflect best practice for volunteer management in Australia (note: these do not cover the legal views in managing volunteers).
Workplace Health and Safety Regulators

To find out more about workplace health and safety and the workers’ compensation scheme that applies to your organisation, contact the regulator in your state or territory:

- Australian Capital Territory (ACT): Worksafe ACT
- New South Wales (NSW): SafeWork NSW
- Northern Territory (NT): NT WorkSafe
- Queensland (QLD): Workplace Health and Safety Queensland
- South Australia (SA): SafeWork SA
- Tasmania (Tas): WorkSafe Tasmania
- Victoria (Vic): WorkSafe Victoria
- Western Australia (WA): WorkSafe WA