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FLASH NO. 81 CALIFORNIA SUPREME COURT AFFIRMS THAT THE *DYNAMEX* "ABC TEST" FOR INDEPENDENT CONTRACTOR CLASSIFICATION APPLIES RETROACTIVELY



Adam Primm



Jordan J. Call



Marc S. Blubaugh



Richard A. Plewacki

On January 14, 2021, the California Supreme Court in *Vasquez v. Jan-Pro Franchise International, Inc.* held that the three-part "ABC" test previously set forth in *Dynamex Operations West Inc. v. Superior Court* also applies retroactively to all non-final cases that predate the April 2018 *Dynamex* decision. In issuing this decision in *Vasquez*, the California Supreme Court responded to a certified question from the United States Court of Appeals for the Ninth Circuit. The Ninth Circuit had previously withdrawn its own opinion applying the *Dynamex* ABC test retroactively before certifying the question for decision by the California Supreme Court.

In April 2018, the California Supreme Court issued its decision in *Dynamex*, where the court set a new standard—the ABC test—for determining whether a worker is an employee or an independent contractor. At the time of the *Dynamex* decision, the California Supreme Court declined to answer whether the ABC test applied retroactively. The California state legislature later codified the ABC test in Assembly Bill 5 (AB 5). The ABC test sets forth that hiring entities must classify workers as employees unless they meet all of the following three conditions:

- A. The person is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact.
- B. The person performs work that is outside the usual course of the hiring entity's business.
- C. The person is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed.

There is a presumption that workers are employees, and the burden falls on the hiring entity to demonstrate each of the above three prongs. Until January 14, 2021, there was no definitive answer to the question regarding whether the *Dynamex* ABC test should apply retroactively.

In *Vasquez*, the California Supreme Court held that the ABC test applies retroactively, citing California's general rule that a California Supreme Court ruling applies retroactively unless the Supreme Court creates an entirely new rule. The hiring entity, Jan-Pro, argued that *Dynamex* should not apply retroactively because the ABC test was a "sea change in the law." The California Supreme Court in *Vasquez* decided that the ABC test from *Dynamex* **was not** an entirely new rule. Rather, the court opined that the ABC test had been used in California for many years, and *Dynamex* simply constituted "an authoritative judicial interpretation of language—suffer or permit to work—that has long been included in California's wage orders to define the scope of the employment relationships governed by the wage orders." The *Vasquez* case will now return to the Ninth Circuit, which previously pledged to abide by the California Supreme Court's decision at the time it certified the question for the Supreme Court's decision.

The *Vasquez* decision does not have any direct effect on AB 5, which codifies the ABC test and applies it generally to the California Labor Code, Unemployment Insurance Code, and Industrial Welfare Commission (IWC) wage orders. The *Vasquez* decision also does not have any direct impact on the federal preliminary injunction that currently enjoins enforcement of AB 5 against motor carriers in California.

The *Vasquez* decision solidifies the retroactive application of the ABC test in California. Unless a hiring entity can demonstrate an applicable exemption from the ABC test, the ABC test will govern wage and hour cases concerning allegations of independent contractor misclassification brought under California IWC wage orders.

For more information on this topic, contact a member of the firm's Labor & Employment or Transportation & Logistics practice groups.

Adam Primm at APrimm@beneschlaw.com or (216) 363-4451.

Jordan J. Call at JCall@beneschlaw.com or (216) 363-6169.

Marc S. Blubaugh at MBlubaugh@beneschlaw.com or (614) 223-9382.

Richard A. Plewacki at RPlewacki@beneschlaw.com or (216) 363-4159.

Additional Information

For additional information, please contact:

Transportation & Logistics Practice Group

Eric L. Zalud, *Co-Chair* at (216) 363-4178 or ezalud@beneschlaw.com

Marc S. Blubaugh, *Co-Chair* at (614) 223-9382 or mblubaugh@beneschlaw.com

Michael J. Barrie at (302) 442-7068 or mbarrie@beneschlaw.com

Dawn M. Beery at (312) 212-4968 or dbeery@beneschlaw.com

Allyson Cady at (216) 363-6214 or acady@beneschlaw.com

Kevin M. Capuzzi at (302) 442-7063 or kcapuzzi@beneschlaw.com

Kristopher J. Chandler at (614) 223-9377 or kchandler@beneschlaw.com

Nora Cook at (216) 363-4418 or ncook@beneschlaw.com

John N. Dagon at (216) 363-6124 or jdagon@beneschlaw.com

William E. Doran at (312) 212-4970 or wdoran@beneschlaw.com

John C. Gentile at (302) 442-7071 or jgentile@beneschlaw.com

Joseph N. Gross at (216) 363-4163 or jgross@beneschlaw.com

Jennifer R. Hoover at (302) 442-7006 or jhoover@beneschlaw.com

Trevor J. Illes at (312) 212-4945 or tilles@beneschlaw.com

Whitney Johnson at (628) 600-2239 or wjohnson@beneschlaw.com

Peter N. Kirsanow at (216) 363-4481 or pkirsanow@beneschlaw.com

Ryan M. Krisby at (216) 363-6240 or rkrisby@beneschlaw.com

David M. Krueger at (216) 363-4683 or dkrueger@beneschlaw.com

Charles B. Leuin at (312) 624-6344 or cleuin@beneschlaw.com

Ashleigh Morpeau at (312) 624-6390 or amorpeau@beneschlaw.com

Michael J. Mozes at (614) 223-9376 or mmozess@beneschlaw.com

Kelly E. Mulrane at (614) 223-9318 or kmulrane@beneschlaw.com

Margo Wolf O'Donnell at (312) 212-4982 or modonnell@beneschlaw.com

Lianzhong Pan at (011-8621) 3222-0388 or lpn@beneschlaw.com

Megan J. Parsons at (216) 363-6177 or mparsons@beneschlaw.com

Martha J. Payne at (541) 764-2859 or mpayne@beneschlaw.com

Joel R. Pentz at (216) 363-4618 or jpentz@beneschlaw.com

Richard A. Plewacki at (216) 363-4159 or rplewacki@beneschlaw.com

Julie M. Price at (216) 363-4689 or jprice@beneschlaw.com

David A. Rammelt at (312) 212-4958 or drammelt@beneschlaw.com

Abby Riffée at (614) 223-9387 or ariffée@beneschlaw.com

Helen M. Schweitz at (312) 624-6395 or hschweitz@beneschlaw.com

Peter K. Shelton at (216) 363-4169 or pshelton@beneschlaw.com

Reed W. Sirak at (216) 363-6256 or rsirak@beneschlaw.com

Deana S. Stein at (216) 363-6170 or dstein@beneschlaw.com

Clare Taft at (216) 363-4435 or ctaft@beneschlaw.com

Joseph G. Tegreene at (216) 363-4643 or jtegreene@beneschlaw.com

Jonathan R. Todd at (216) 363-4658 or jtodd@beneschlaw.com

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