CLIENT ALERTS & INSIGHTS

California Supreme Court Unanimously Rules that Uber, Lyft Drivers May Remain Classified as Independent Contractors

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On July 25, 2024, the California Supreme Court unanimously ruled that Uber Technologies Inc. ("Uber") and Lyft Inc. ("Lyft") can continue classifying their California drivers as independent contractors. The court reasoned that California's constitution does not bar voters from passing legislative initiatives on matters impacting workers' compensation, upholding Proposition 22 and permitting such companies to classify their drivers as contractors.

The battle over driver classification in the Golden State began in earnest in 2019 with the passage of Assembly Bill No. 5 ("AB5"). AB5 codified the "ABC test" to determine whether a worker is an independent contractor or employee of a hiring entity. Under the test, a worker is deemed to be an independent contractor only if the hiring entity establishes: "(A) that the worker is free from the control and direction of the hirer in connection with the performance of the work, both under the contract for the performance of the work and in fact; (B) that the worker performs work that is outside the usual course of the hiring entity's business; and (C) that the worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed for the hiring entity."

After AB5 took effect in January 2020, a California Court of Appeals interpreting the law prohibited Uber and Lyft from classifying their drivers as independent contractors. In response to the Court of Appeals' holding, voters initiated and passed Proposition 22, which was designed to "protect the basic legal right of Californians to choose to work as independent contractors with rideshare and delivery network companies." Those challenging the legality of Proposition 22 in the California Supreme Court argued that the law interfered with the California Legislature's plenary power to create and enforce the state's workers' compensation system by allowing voters to determine whether drivers should be classified as independent contractors rather than employees, thus precluding those drivers from coverage under the state workers' compensation system.

What This Means for Employers:

Gig-economy companies like Uber and Lyft can breathe a sigh of relief knowing their drivers may remain classified as independent contractors in California. Had the California Supreme Court invalidated Proposition 22, they would have faced millions of dollars in exposure due to reclassifying their workforce, upending their business. The ruling also provides a degree of certainty to gig-workers, many of whom value the flexibility afforded to them by virtue of their status as independent contractors.

As opponents of Proposition 22 have made it clear that they will continue to fight, additional legal and legislative challenges are likely inevitable. We will continue to provide updates in the event those challenges arise.

For more information on the California Supreme Court's ruling or how it can affect your business, contact a member of Benesch's Labor & Employment Practice Group.

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