

A WORD OF CAUTION TO “HOME CLEANING PRICE SHOPPERS”

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THE WALMART EFFECT

One of the most common refrains I hear from legitimate cleaning service owners is, “Why do some people shopping for a house cleaning service view the cheapest price as their best value option?” The easy answer is because of what I call the “Walmart Effect.”

When it comes to buying most everyday commodities, there is little or no difference between brands and models at discount merchants and other retailers – except price. Yes, upscale retailers may have superior store ambience and more knowledgeable employees and consumers will visit these merchants to get educated. But once they settle on a particular product, they will often shop that product elsewhere to find the lowest price.

SHOPPING FOR A SERVICE PROVIDER IS ALTOGETHER DIFFERENT

While a product brand and model number is the same regardless of where you purchase it, the same is not true when it comes to home services providers. This is true of plumbers, electricians, air conditioning repairs and maintenance, window cleaners, carpet cleaners, power washing companies, painters, handymen, roofers, etc. However, there is really no industry more representative of this feature than the home cleaning trade (and, yes, it is a trade, too).

If you have ever hired two or more house cleaners, you have already learned that inconstancy is more the norm than not. Typically, the lower down the price ladder you shop, the more dissatisfaction you are likely to encounter. As with everything, there are exceptions at either end. However, high prices and high dissatisfaction never last; neither do low prices and high disappointment.

“LICENSED, BONDED AND INSURED” MAKES GOOD COPY ... BUT ...

It’s not necessarily what it appears. It seems like everyone running around with a business card, mop and a bucket says the same thing. Check online with your county and/or city licensing bureau *and* your state Division of Corporations to confirm the business is registered and licensed. But the other two claims are more important to you.

When it comes to **insurance**, you MUST ask to see a copy of the company’s certificate of insurance and make sure it covers YOU and YOUR PROPERTY, not just the businesses’ interests. It should provide for a minimum of \$500,000 liability insurance – and the more the better. It should include a “care, custody and control” clause to protect you in the event of damage done to your property in the course of being cleaned.

And the claim you want to really look into is “**bonded**.” Few cleaning companies carry what you really need and that is “employee dishonesty” insurance, or a third-party fidelity bond. Some companies “bond” their employees to protect themselves from employee dishonesty, but unless they have “third-party” coverage this does nothing to protect you or your property. Insurance policies often require conviction prior to paying a claim.

WORKERS COMPENSATION INSURANCE

This is one benefit claim most cleaners do not make, yet it could be the most important to you. Small cleaning companies often ignore this legally required insurance, which in the event of injury to a cleaner working in your home, could cost you a small fortune. Yes, you do carry home owners’ or renters’ insurance, which covers you for injury to someone visiting your property. However, this coverage DOES NOT APPLY to someone working for hire in your home. Yes, if a company’s worker is injured on your property and the company does not have workers’ comp insurance, that company is facing some serious consequences, which could put them out of business. But you could be the one stuck with paying tens of thousands of dollars in medical costs!

HOW ARE YOUR CLEANING PERSONNEL VETTED?

Legitimate cleaning companies adhere to strict background checks on the individuals they hire to clean your home. Small – especially those house cleaning companies operating below the radar of the IRS are, more often than not, lacking in this area. It costs money and can be a time-consuming process. However, since most clients are not home when their cleaners visit, it's obviously critical that anyone with access to your home and property be thoroughly vetted.

Past employment references can be helpful in learning a person's work ethics, attendance record, coworker sociability, adaptability, attentiveness, good judgment, pride in his or her workmanship and as important as any characteristic, a deep desire to please his or her clients. This is clearly important information that clients may not be able to do or have time to research. Unfortunately, many cleaning companies are guilty of being remiss in this vetting step. However, this may be the least important of the four background checks we teach owner how to conduct successfully.

Drug testing is a critical part of the screening process for prospective employees in this industry. Drug use is an expensive habit. Where do drug users get the money to buy drugs? Stealing goods for money to acquire drugs from a dealer is perhaps the most common means of funding their habit. But drug addicts who clean houses for a living can avoid the middleman by helping themselves to prescription pain killers and other restricted medications common to medicine cabinets of almost every bathroom. These folks need to be screened out BEFORE they have an opportunity to check out your bathrooms!

Criminal background checks are a no-brainer for a home cleaning company, yet there are many who skip this important screening procedure. Polygraph testing is permissible for the U.S. government to use in vetting new hires, but it is illegal for companies or private individuals to do so. In fact, the EEOC has taken the position that convicted felons cannot be discriminated against because it would weigh heaviest against African Americans and Latinos. HOWEVER, in occupations such as house cleaning, where workers are exposed to the personal property of clients – often when the householder is absent, makes the rule of reason reign supreme. Logically, there is a huge difference between hiring a convicted felon who might have unsupervised access to a person's residence versus a job driving a snowplow or working on road construction. Police background checks confirming a clean record are essential in the home cleaning industry.

A clean driving record is important to the business owner. While this may sound of little concern to clients, accidents can and do happen. God forbid a worker with a prior DUI conviction runs over a neighbor's dog or child while pulling into or out of your driveway while under the influence of alcohol or drugs. In any case, it all boils down to spending the time and money to find the best possible workers with high morals and strong character to work in your home. There is a lot more than knowing how to clean professionally, effectively and efficiently to be the kind of person you should want in your home.

With the above selection process, as few as one out of 100 applicants make it onto the staff of the best home cleaning companies.

EMPLOYEE TRAINING

If a new hire makes it through the above-described gauntlet, the vetting process is still not complete. As a matter of fact, it can take up to an additional three months before the new employee is officially "hired." In order to maintain an across-the-board constancy of high quality standards, it requires many weeks of both classroom and on-the-job training to mold a new individual into worthy house cleaner.

Effectiveness and efficiency are key elements in the learning process. In fact, in order to achieve this goal, anyone with prior cleaning experience usually needs to be "untrained" and then retrained. Old habits die hard but old habits usually translate into working harder, not smarter.

Just as with any trade, the cleaning industry has adapted specialty tools, equipment, supplies and chemicals which new hires have to be taught how to use effectively and efficiently. Believe me; if professional cleaners used the same methods people use to clean their homes, they would need to virtually move in, not just visit.

TRAVEL TIME IS NOT FREE

Under the United States Fair Labor Standards Act, employees are entitled to compensation for work-related travel time and, for that matter, any required job-related activities related to their work. In other words, while commuting time between their home and company's office is not compensable, employees are entitled to be paid from the time they are required to arrive at work until they leave their workplace at the end of the day. Unscrupulous companies may try to ignore this provision of the FLSA, but it is doubtful that their clients would knowingly be party to this unlawful ploy.

PAYROLL TAXES

Employers are required to withhold 6.2% Social Security Tax, 1.45% Medicare tax as well as specific city, county, or school district taxes, state disability or unemployment insurance contributions as appropriate. In addition, the employer must contribute 7.65% towards FICA (combination of 6.2% Social Security and 1.45% Medicare) plus federal and state unemployment taxes.

ARE YOU POTENTIALLY A HOUSEHOLD EMPLOYER?

What many householders are unaware of is that, depending on the relationship with any household help, they could be considered an employer by the IRS. This raises a number of potential issues for the client.

If you hire a person to work in or around your home who is not working as an employee or sub-contractor of a registered company, or who has not established and registered his or her own company with its own Employer's Identification Number, you may fall under the definition of "household employer" based on the following criteria:

If you:

- Pay cash wages of \$1,900 or more (2014 threshold) during one calendar year
- Pay cash wages of \$1,000 or more (2014 threshold) during any calendar quarter

Then you must:

Withhold and pay social security and Medicare taxes.

- The taxes are 15.3% of cash wages.
- Your employee's share is 7.65%.

(You can choose to pay it yourself and not withhold it.)

- Your share is 7.65%.

Pay federal unemployment tax.

- The tax is 6% of cash wages.
- Wages over \$7,000 a year per employee are not taxed.
- You also may owe state unemployment tax.

Note: You are not required to withhold federal income tax on household employees, but you should contact your state unemployment tax agency to find out whether you need to pay state unemployment tax for your household employee. See IRS Publication 926 for more details.

LEGAL ELIGIBILITY TO WORK IN THE UNITED STATES

Although Congress is at odds over the status of undocumented workers at this writing, current IRS regulations require that all job seekers provide evidence that they are legally eligible to work in the United States. If you hire a legitimate company to clean your home, the responsibility for vetting employment eligibility is strictly in their lap. However, it is unlawful for you knowingly to hire or continue to employ an alien who cannot legally work in the United States. When you hire a household employee to work for you on a regular basis, you and the employee must complete the U.S. Citizenship and Immigration Services (USCIS) Form I-9, Employment Eligibility Verification. No later than the first day of work, the employee must complete the employee section of the form by providing certain required information and attesting to his or her current work eligibility status in the United States. You must complete the employer section by examining documents presented by the employee as evidence of his or her identity and employment eligibility. Acceptable documents to establish identity and employment eligibility are listed on Form I-9. You should keep the completed Form I-9 in your own records.

PROFESSIONAL HOME CLEANERS ARE NOT MINIMUM WAGE WORKERS

The “Cinderella Syndrome,” where the domestic employee is looked down upon as lower than the household pet and open to exploitation by the upper-crust elite lord and lady of the manor, still exists in the mindset of more than a few insensitive clients. Actually, a professional house cleaner is a highly skilled worker, whose job requires stamina, high energy, endurance, acquired techniques, good judgment, attention to detail, pride in workmanship and a strong desire to please his or her clients. One does not attract or retain this caliber of worker by offering minimum wage.

At the conclusion of 2014, members of Congress and the White House were pushing for a Federal Minimum wage of \$10.10/hour, with some states already adopting this as their new minimum wage. The cities of San Francisco and Oakland raised their minimum wage to \$12.15/hour effective in the spring of 2015. Some forecasts suggest \$15/hour is in the cards for the near future.

The cleaning industry has learned that whatever the minimum wage, in order to attract quality candidates, it has always been necessary to offer higher than minimum wage. When you add an employer’s payroll burden (FICA, FUTA, SUTA, workers compensation and liability insurance and for some companies Obamacare), it is easy to see that wages and related costs are a major expense for legitimate home cleaning services.

BEWARE OF “REFERRAL SERVICES” AND MISCLASSIFIED “INDEPENDENT CONTRACTORS”

There have always been devious operators whose business model consists of hiring their workers as independent contractors in order to attempt to avoid bearing the costs associated with hiring employees. However, misclassifying workers is a serious offense. The Department of Labor says that between 2012 and 2013, it collected \$18.2 million in penalties linked to misclassification of more than 19,000 workers in the U.S. In 2013, Georgia-based Hibachi Grill & Supreme Buffet was hit with a \$2 million lawsuit for misclassifying restaurant servers as independent contractors, a figure not included in the \$18.2 million referenced above that was actually collected.

Over the past couple of years several “referral services” have sprung up offering home cleaning and related industries on a business model based on supplying “independent contractors” to consumers. However, based on the IRS Publication 15-A definition of Employee vs. Independent Contractor, we do not believe this model will hold mustard. Among the 20 factors which define the relationship according to the IRS Web site are, in part:

“The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. The earnings of a person who is working as an independent contractor are subject to Self-Employment Tax.

If are an independent contractor, you are self-employed. To find out what your tax obligations are, visit the Self-Employed Tax Center.

You are not an independent contractor if you perform services that can be controlled by an employer (what will be done and how it will be done). This applies even if you are given freedom of action. What matters is that the employer has the legal right to control the details of how the services are performed.

If an employer-employee relationship exists (regardless of what the relationship is called), you are not an independent contractor and your earnings are generally not subject to Self-Employment Tax.

However, your earnings as an employee may be subject to FICA (Social Security tax and Medicare) and income tax withholding.”

Now, before you say, “What do I care?” -- consider this: Since the referring company has no legal control over how or when the IC’s work is performed, how can quality control and constancy be assured? With high reported worker turnover, who is going to make it right if you are not satisfied? Since the organization who referred the worker says it is not the person’s employer, might you be the technically legal employer subject to responsibility for payroll taxes?

Some things to think about in these four pages, aren’t there?