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On September 18, 2019, California Governor Newsom signed into law Assembly Bill 5 (AB5), a landmark employment bill imposing the “ABC” test on California businesses and workers to determine whether a worker is an employee or independent contractor. AB5 will retroactively reclassify some California workers as employees. Those newly classified employees will then be subject to California’s labor laws and regulations along with local municipal ordinances and rules resulting in potential back pay claims for misclassification.

Sometimes referred to as the “Uber law,” discussion around AB5 has focused primarily on the impacts on the gig economy, but the law extends to companies not directly associated with the gig economy, including franchisors.

When does AB5 become effective?

AB5 takes effect on January 1, 2020, and will apply retroactively. Starting July 1, 2020, any individual who is an employee under the ABC test must be covered by workers’ compensation insurance.

What does AB5 do?

AB5 imposes the “ABC” test set forth in *Dynamex Operations West, Inc. v. Superior Court of Los Angeles*, 416 P.3d 1 (Cal. 2018) on California businesses and workers in evaluating whether a worker is an employee or an independent contractor for purposes of labor protections under California law, including the California’s Labor Code, Unemployment Insurance Code, Wage Orders, and Workers’ Compensation Code.

Excerpted from *Franchising USA*. To read the full article, click [here](#).