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Hiring Licensed or Unlicensed Contractors: What You Should Know

By Don Odell



A local solar company installs, monitors, and finances residential and commercial energy systems. They are licensed to install, maintain and repair solar energy systems and for heating, ventilating and air conditioning. Some of the crew are pictured installing panels on a home in Moraga. Photos Cathy Tyson

personally liable.

Unlicensed contractors are not bonded, so if they do not complete the work, you will have to pay to finish it, even if you've already paid the contractor. Unlike most licensed contractors, unlicensed contractors do not carry errors and omissions insurance so if the contractor's work injures someone or damages your property, you will be faced with the difficult task of trying to recover your damages from the contractor. Also, their work is usually not documented under a written contract, leaving you with no clear statement of what is required of the contractor, and they often do not pay taxes on the money they receive, potentially exposing you to the risk of having to pay employment taxes and social security taxes for the contractor.

Further, many unlicensed contractors do not obtain permits for their work or have the work inspected by the local building inspectors. This creates a severe long term problem for the property owned, particularly where residential properties are concerned, because when the owner goes to sell the property, the owner is required to disclose that the work was done without permits, a disclosure that often negatively impacts the sale price.

So, while you can save money by hiring unlicensed contractors, doing so comes with risks and unless you are careful, you could end up paying far more in the long run for the work than if you hired a licensed contractor.

To be safe, before you hire anyone to work on your property, licensed or not, take the time to educate yourself on the risks and make sure that you have a contract in place that will protect you.

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More Contractor Facts

While the Contractors State License Board says that anyone performing construction work in California that totals \$500 or more in labor and materials must be licensed, unlicensed workers are easy to find, and for small jobs around the house, usually a good solution.

The Labor Enforcement Task Force (LETF), part of the California Department of Industrial Relations is out there to police what they call "an underground economy and improve the state's business environment" to enforce carrying workers' compensation insurance and provide a safe work environment, proper payment of wages and support the collection of all California taxes, fees and penalties. In 2012, a total of 635 construction businesses were inspected by the LETF. The California State License Board estimates there are about 300,000 licensed contractors in the state, so despite undercover sting operations, the likelihood of getting caught is fairly slim. Obviously it's hard to quantify how many unlicensed contractors there are.

C. Tyson

The economy has hit the construction industry hard and many contractors and construction workers are out of work. This has proven to be a savings boom for property owners as the glut of construction workers looking for work has forced the price of construction down. However, for the unwary property owner, this savings can bring risk.

For the first time in perhaps a decade, highly skilled construction workers, many without licenses, are looking for work and are willing to significantly discount their prices. But at what cost to you, the property owner?

It is not unrealistic to hire an unlicensed contractor with as much or more experience as a licensed contractor for half the cost. But, before you do so, consider that the State of California requires that anyone performing work for which a contractor's license is required have a current contractor's license.

The license does not guarantee that the work performed will be good, it simply assures that the contractor has met certain basic standards and that the contractor has basic experience and knowledge of the work covered by the license. It also assures that the contractor has a minimum bond to help ensure that the work is completed, and, if the work contemplated is \$500 or more, it requires that the contractor enter into a contract with you for that work.

An unlicensed contractor, on the other hand, can not obtain worker's compensation insurance. So if someone working on your job is injured on the project, you could be



With more than 20 years of experience under his tool belt, a Lafayette handyman finds plenty of work on a variety of projects around the area, from installing crown molding to building a pergola to working on recent real estate listings that need some TLC.

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