



by Matthew Swanlund

WORK MADE FOR HIRING

In California, a person who enters into a written agreement to produce works made for hire is an employee

CALIFORNIA BUSINESSES face a choice when hiring consultants and independent contractors to create or develop intellectual property. A conflict between federal and state law could have critical operational and legal consequences. The use of work-made-for-hire agreements by businesses engaging creative independent contractors is well established. However, California businesses may be violating California state law when engaging creative independent contractors in work-made-for-hire agreements. Similarly, artists, designers, programmers, and other creative individuals may be unknowingly waiving important rights and remedies granted to them under California state law.

In 1982, the California legislature enacted Labor Code Section 3351.5(c) and Unemployment Insurance Code Sections 686 and 621(d), which directly address the express terms of the U.S. Copyright Act regarding creative works made for hire.¹ California businesses face a critical decision in dealing with this potential conflict. They may take

advantage of the benefits afforded by the work-made-for-hire doctrine of the Copyright Act but be treated under California law as an employer, or they may sacrifice the benefits of the work-made-for-hire doctrine yet maintain the independent contractor status of its creative workers. Whichever decision the business makes could have lasting legal and practical consequences.

Oddly, this conflict of law is not a new issue. In fact, it was raised in legal journals in 1984 and 1995.² However, there appears to be very little of record in the past 20 years. There is a dearth of federal and state case law interpreting this conflict, and there are no California Labor Department opinions indicating any intent to enforce the California laws. This has led to a general ignorance of the laws in both the creative and legal communities. With the increasing scrutiny on the classification of independent contractors and employees under California law, as evidenced by the recent decisions involving Uber drivers and unpaid interns at Fox Searchlight,³ it is

likely only a matter of time until the focus lands on the practice of hiring independent contractors to create works made for hire.

Generally, under the Copyright Act, the creator of the creative work is the author of that work and therefore the owner of the copyright in that work.⁴ However, if the creator is an employee of the business and acting within the scope of employment when the creator creates the work of authorship, then the employer owns the copyright by operation of federal law.⁵ The Copyright Act also provides a specific, limited mechanism in which an independent contractor can be treated similarly to an employee with regard to the creation of intellectual property. If an independent contractor creates the work of authorship as a work made for hire, the business

Matthew Swanlund is the founder and principal of Aesthetic Legal, a boutique Los Angeles business law firm representing creative businesses, individual artists, performers, designers, advertisers, and creative entrepreneurs.

that engages the creator is deemed to be the author of the work and therefore owns the underlying copyright in the work.⁶

For works created after January 1, 1978, the Copyright Act defines a “work made for hire” as, among other things, a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, or as a compilation if the parties expressly agree in a written instrument that the work is a work made for hire. A work created by an independent contractor can be a work

the work, 3) to distribute copies of the work, 4) to perform the work publicly, and 5) to display the work publicly.⁸ This list makes clear why it is imperative that the business obtain and retain copyright ownership in the creative work product that independent contractors create or develop.

California Labor and Unemployment Insurance Codes

In California, however, there are state statutes that effectively negate the work-made-for-hire provision of the Copyright Act.⁹ Under

comprised in the copyright in the work.

The ordering or commissioning party shall be the employer of the author of the work for the purposes of this part.

Unemployment Insurance Code Section 621(d) defines “employee” with reference to Section 686. Similarly, Section 3351.5(c) of the Labor Code contains a similar definition of “employee” to include someone entering into written agreements to produce works made for hire. Therefore, if a California business engages an independent contractor, yet has a written agreement stating that any intel-

An employer under California law has an affirmative legal obligation to secure workers’ compensation insurance covering employees before any agreement is even commenced. This law is deemed to be violated at the moment the work-made-for-hire agreement is executed without having the insurance.

made for hire only if it falls within one of the listed categories and there is a written agreement between parties specifying that the work is a work made for hire.⁷ A work-made-for-hire contract provision serves to transfer copyright to the business that engages the independent contractor without the requirement to formally hire the independent contractor as an employee. This would apply to an actor hired by a production company to act in a film or to a studio musician hired by a record producer to play on a song recording. However, this also applies to graphic designers hired to create company logos, marketing materials, or websites; or to programmers or software developers hired to create computer code or design apps or widgets. Extending this even further, it could also include photographers, set designers, visual artists and camera operators.

Because copyright ownership is initially established at the time the creative work of authorship is created, creative businesses need to be vigilant in ensuring that copyright is properly secured. Customarily, a business acquires the work of authorship created by the independent contractor because it intends to integrate it into a motion picture, television show, internet product, software program or application; or incorporate it into marketing materials, websites, and logos. Therefore, having the ability to reproduce, sell, distribute, or license these materials is of utmost importance to a business. The Copyright Act grants owners of copyright five distinct exclusive rights: 1) to reproduce the copyrighted work, 2) to prepare derivative works based upon

California Labor Code Section 3351.5(c), a person who creates a work of authorship under a contract that expressly provides that the work is to be considered a work made for hire, is an employee.¹⁰ Similarly, under California Unemployment Insurance Code Sections 686¹¹ and 621(d),¹² a party commissioning a work under a contract that expressly provides that the work is to be considered a work made for hire, is an employer.¹³ Most businesses engage independent contractors in work-made-for-hire engagements to secure copyright ownership of the work of authorship without affording the creator the job, wage, or benefit security of a formal employee.

California businesses may well continue to take advantage of the work-made-for-hire benefits of the Copyright Act and secure copyright ownership in the creative work product. However, the California Labor and Unemployment Insurance Codes are clear—businesses that do so will be deemed employers of the independent contractors who create works made for hire. Section 686 of the California Unemployment Insurance Code specifically defines “employer” as:

[A]ny person contracting for the creation of a specially ordered or commissioned work of authorship when the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire, as defined in Section 101 of Title 17 of the United States Code, and the ordering or commissioning party obtains ownership of all of the rights

lectual property created by the independent contractor is a work made for hire, the business will be deemed under California law to be an employer, and the independent contractor will be deemed to be an employee.

What are the practical ramifications if an independent contractor is deemed to be a statutory employee, and the business is deemed to be a statutory employer, under California law? First, employers must register with the Employment Development Department (EDD) within 15 days after paying an employee in excess of \$100 in wages.¹⁴ Second, employers must report new employees within 20 days of the employee’s start-of-work date. Third, employees must be provided with pamphlets on employee withholdings, unemployment insurance (UI), state disability insurance (SDI), and paid family leave (PFL).¹⁵ State and federal regulations require employers to display various posters and notices to inform their employees of certain laws and regulations pertaining to employment and working conditions such as UI,¹⁶ SDI,¹⁷ and PFL¹⁸ claims and benefits information. Employers must then make UI, employment training tax (ETT), SDI, and California personal income tax (PIT) payroll tax deposit (DE 88) payments. Subsequently, employers must file a Quarterly Contribution Return and Report of Wages (DE 9) form to reconcile the tax and withholding amounts with the DE 88 deposits for the quarter.¹⁹ Finally, employers must file a Quarterly Contribution Return and Report of Wages (Continuation) (DE 9C) form to report total subject wages paid, PIT wages, and PIT withheld for each employee

MCLE Test No. 255

The Los Angeles County Bar Association certifies that this activity has been approved for Minimum Continuing Legal Education credit by the State Bar of California in the amount of 1 hour. You may take tests from back issues online at <http://www.lacba.org/mcleselftests>.

1. Without a written work-made-for-hire agreement, the hiring business is the author of the creative work and the owner of the underlying copyright.
True.
False.
2. If the creator of a work is an employee of the business and acting within the scope of employment when the creator creates the work, then the employer automatically owns the copyright by operation of federal law.
True.
False.
3. For works created after January 1, 1978, the Copyright Act defines a "work made for hire" as a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, or as a compilation, if the parties expressly agree orally that the work is a work made for hire.
True.
False.
4. A work created by an independent contractor can be a work made for hire only if it falls within one of the listed categories and there is a written agreement between parties specifying that the work is a work made for hire.
True.
False.
5. Under California law, an independent contractor who creates a work of authorship under a contract that expressly provides that the work is to be considered a work made for hire is an employee of the business.
True.
False.
6. Under the California Unemployment Insurance Code, a business commissioning a work under a contract that expressly provides that the work is to be considered a work made for hire is an employer.
True.
False.
7. Under California law, employer businesses are not required to make unemployment insurance, employment training tax, state disability insurance, and California personal income tax, and payroll tax deposit payments for their independent contractors.
True.
False.
8. An employer under California law has an affirmative legal obligation to secure workers' compensation insurance covering employees after services have commenced.
True.
False.
9. Only a labor commissioner has the authority to issue a stop order against any business that is discovered to be unlawfully uninsured for workers' compensation.
True.
False.
10. The primary problem with misclassifying an em-

- ployee as an independent contractor is that the employer may wind up paying all the back employment taxes, including the employee's share, plus interest and penalties.
True.
False.
11. Copyright ownership can be transferred or assigned orally or in a written document.
True.
False.
 12. A work of authorship generally created after January 1, 1978, by a single author is protected by copyright for an initial term of 28 years, with one extension of 28 years.
True.
False.
 13. The Copyright Act of 1976 allows certain authors who have transferred copyright by contract or otherwise to terminate the copyright transfer and regain those transferred rights after 35 years.
True.
False.
 14. The copyright termination of transfer right can be waived only in a written contract by the author.
True.
False.
 15. Corporations and limited liability company entities are not considered employees under the California statutes for the purposes of works made for hire as the creators must be individuals.
True.
False.
 16. Congress intended to preempt the California statutes with the Copyright Act of 1976 regarding works made for hire.
True.
False.
 17. There is an extensive and conflicting history of federal and state case law interpreting the conflict between the Copyright Act and the California statutes regarding works made for hire.
True.
False.
 18. Copyright ownership consists of the two distinct exclusive rights to reproduce and distribute a creative work.
True.
False.
 19. The provisions of the California Labor Code only apply to California residents who have relationships with California-based businesses.
True.
False.
 20. There are only civil penalties for a business's failure to secure workers' compensation insurance for its employees.
True.
False.

MCLE Answer Sheet #255



WORK MADE FOR HIRING

Name _____

Law Firm/Organization _____

Address _____

City _____

State/Zip _____

E-mail _____

Phone _____

State Bar # _____

INSTRUCTIONS FOR OBTAINING MCLE CREDITS

1. Study the MCLE article in this issue.
2. Answer the test questions opposite by marking the appropriate boxes below. Each question has only one answer. Photocopies of this answer sheet may be submitted; however, this form should not be enlarged or reduced.
3. Mail the answer sheet and the \$20 testing fee (\$25 for non-LACBA members) to:

Los Angeles Lawyer
MCLE Test
P.O. Box 55020
Los Angeles, CA 90055

Make checks payable to Los Angeles Lawyer.

4. Within six weeks, Los Angeles Lawyer will return your test with the correct answers, a rationale for the correct answers, and a certificate verifying the MCLE credit you earned through this self-assessment activity.
5. For future reference, please retain the MCLE test materials returned to you.

ANSWERS

Mark your answers to the test by checking the appropriate boxes below. Each question has only one answer.

1. True False
2. True False
3. True False
4. True False
5. True False
6. True False
7. True False
8. True False
9. True False
10. True False
11. True False
12. True False
13. True False
14. True False
15. True False
16. True False
17. True False
18. True False
19. True False
20. True False

for each quarter. Failure to complete these steps on time may result in penalty and interest charges.²⁰

An employer under California law has an affirmative legal obligation to secure workers' compensation insurance covering employees before any agreement is even commenced.²¹ This law is deemed to be violated at the moment the work-made-for-hire agreement is executed without having the insurance.²² Injury to an employee during the term of engagement is not the trigger for the insurance requirement. Failure by an employer who knew, or because of knowledge or experience should be reasonably expected to have known, of the obligation to secure the payment of compensation, is a misdemeanor punishable by imprisonment in the county jail for up to one year, or by a fine of up to \$10,000, or both.²³

Further, the California Department of Insurance provides that employers that fail to purchase workers' compensation insurance are in violation of the California Labor Code.²⁴ The director of the Department of Industrial Relations has the authority to issue a stop order against any business that is discovered to be unlawfully uninsured for workers' compensation. A stop order will close down business operations until workers' compensation insurance is secured. In addition to issuing a stop order, the director can assess fines based on whether a business was unlawfully uninsured through normal investigation or through the filing of an injured worker's claim with the Uninsured Employers Benefits Trust Fund.²⁵ Failure to comply with a stop order can result in a \$10,000 fine, and the fine for failure to carry workers' compensation insurance is \$1,000 per employee. Businesses can also be prosecuted for insurance fraud for willful failure to secure workers' compensation insurance as prescribed by law.²⁶ If a business elects not to purchase workers' compensation insurance, the business opens itself up to potential liability lawsuits from injured employees. Further, a creative independent contractor may be deemed to be an employee for other purposes, including matters related to payroll taxes.²⁷ The business may also potentially find itself exposed to claims by such employees for benefits offered by the business to its other employees.²⁸ The primary problem with misclassifying an employee as an independent contractor is that the employer may wind up paying all the back employment taxes, including the employee's share, plus interest and penalties.²⁹

Maintaining Independent Contractor Status

What if a business merely removes the work-made-for-hire language from the independent contractor agreement in an effort to maintain

the independent contractor relationship with its workers? Under the Copyright Act, ownership of the copyright in any work of authorship created by the independent contractor would immediately vest in the independent contractor. This is problematic if the business ultimately desires to use the intellectual property in a way that involves the display, reproduction, distribution, performance, or creation of derivative works of the copyrighted work of authorship.

In an attempt to secure copyright ownership in the creative work product of its independent contractors, some businesses have started inserting a provision in the independent contractor agreement that assigns all copyright created in the work of authorship to the business. Copyright ownership must be transferred in a written document and can be transferred to the business as an alternative means of ensuring that the business obtains copyright ownership.³⁰ A business could also elect to insert a license provision which would transfer a limited right to the business to use the creative work product for a specific limited purpose or duration of time. These options are both effective in transferring the copyright, or a portion thereof, from the independent contractor to the business. A work of authorship generally created by a single author is protected by copyright for the life of the original author plus 70 years,³¹ so there could be sufficient benefits for a business to secure the copyright by virtue of an assignment or license. If the original creator were to die a day after making the assignment, the copyright would still last for 70 years, which may or may not be sufficient.

However, the significant risk with this approach is that copyright law provides that assignments of copyright and licenses granted in a work made by the author can be terminated under certain circumstances.³² The Copyright Act of 1976 allows certain authors who have transferred copyright by contract or otherwise to regain those transferred rights after 35 years.³³ If an independent contractor is able to regain the copyright in the creative work after 35 years, it could serve a severe blow to a business if the work turns out to be highly valuable or critically integrated into the intellectual property of the business. Furthermore, this termination of transfer right cannot be waived in a contract, so a business cannot include a waiver clause in its contract with an independent contractor.³⁴ While businesses may believe they are achieving the same end result as having a work-made-for-hire agreement, they are only guaranteeing control of the copyright for 35 years.

Compliance

Is it possible for a business to secure copyright through the benefits of the work-made-

for-hire doctrine while maintaining independent contractor status for its creative workers? A novel argument that has yet to be tested would be to have the business engage the creator in a formal work-made-for-hire engagement but to specify that the creator retained some limited rights in and to the copyright interest. Section 3351.5(c) of the Labor Code specifically defines "employee" to include:

[a]ny person while engaged by contract for the creation of a specially ordered or commissioned work of authorship in which the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire, as defined in Section 101 of Title 17 of the United States Code, and the ordering or commissioning party obtains ownership of all the rights comprised in the copyright in the work.

Strictly interpreted, this appears to require that the business obtain *all* the copyrights in and to the creative work product. As copyright consists of a bundle of five distinct exclusive rights,³⁵ it may be possible to have the creator retain ownership or a license in a limited copyright interest as a means to keep the business in compliance with the Labor Code as well as obtaining copyright in the creative work from the independent contractor. For example, the terms of the work-made-for-hire agreement could provide that the creator retains a license to reproduce his or her contribution to the work for non-commercial promotional purposes. As yet no case law interprets this approach; it is unclear if a business would be successful with this approach.

Businesses could attempt to make the contract subject to the law of a state other than California. That could give rise to the argument that neither the Labor Code nor the Unemployment Insurance Code applies to the parties of the contract. However, these laws may apply when either the creator or business are located in California.³⁶ They would apply if the business is located in California and engaging the services of a creator residing in another state or even another country, or if the creator is located in California and the business is located in another state or even another country.³⁷ This approach does not appear to give comfort to California creative businesses.

Businesses could also make the argument that the supremacy clause would appear to apply, which would rule in favor of the Copyright Act.³⁸ The clause establishes that the U.S. Constitution, federal laws made pursuant to it, and treaties made under its authority constitute the supreme law of the land.³⁹ Preemption can be either express or

implied. If Congress expressly preempts state law, the only question for courts becomes determining whether the challenged state law is one that the federal law is intended to preempt. In this case, the current Copyright Act was enacted in 1976.⁴⁰ The California Labor and Unemployment Insurance Codes were enacted in 1982.⁴¹ Therefore, there does not appear to be any intended preemption by Congress. Implied preemption presents a more difficult issue because the state laws in question do not appear to directly conflict with federal law. To borrow a phrase from *Pennsylvania v. Nelson*, we must then look to whether Congress has “occupied the field” in which the state is attempting to regulate, or whether a state law directly conflicts with federal law, or whether enforcement of the state law might frustrate federal purposes.⁴² Federal occupation of the field occurs when there is no room left for state regulation. Courts will look to the pervasiveness of the federal regulation, the federal interest at stake, and the danger of frustration of federal goals in making the determination as to whether a challenged state law can stand.⁴³

As there is no case law that addresses this issue, it is unclear how a court may rule. A case could be made that the purpose of the work-made-for-hire doctrine under the Copyright Act is to provide businesses with a mechanism to obtain copyright ownership in a work of authorship without the requirement to formally hire the creator as an employee. Under that argument, the state laws would frustrate that purpose because it eliminates the possibility of a business engaging a creative independent contractor in a work-made-for-hire agreement. A case could also be made that the state laws only add certain employment obligations on a business and otherwise do not affect copyright ownership in the work of authorship. When rules or regulations do not clearly state whether or not preemption should apply, the U.S. Supreme Court has tried to follow legislative intent and shown preference for interpretations that avoid the preemption of state laws.⁴⁴ Until a court rules on this potential preemption issue, the uncertainty for California creative businesses will continue.

Loan-Out Company

In the case of many creative professionals, it is not unusual to have a loan-out shell company, either a limited liability company or corporation, for tax and liability purposes. This loan-out company provides limited liability and tax advantages to the creative professional, but it could also resolve this conflict of laws by providing creative businesses with an opportunity to obtain complete copyright ownership of a work of authorship created

by an independent contractor, and maintain independent contractor status for the creative worker. One effective method to accomplish this is for a business to require any independent contractor to enter into the work-made-for-hire agreement as a limited liability company or corporate entity, and not in an individual capacity. Customarily, an artist or creative individual will enter into agreements in its corporate capacity, which then agrees to provide the services of the individual pursuant to the independent contractor agreement. Corporations and limited liability company entities are not considered employees under the California statutes for the purposes of works made for hire, as the creators must be individuals.⁴⁵ Therefore, the terms of the California Labor and Unemployment Insurance Codes relating to works made for hire do not apply to limited liability companies and corporations.⁴⁶ While many creative professionals already operate loan-out companies, it may pose a burden to require smaller independent contractors to form a limited liability company or corporation as a precondition to being awarded an independent contractor engagement. However, in light of the risks associated with either lack of complete ownership or copyright or the obligations of treating the creative worker as an employee, this precondition may be a necessity.

California businesses face a difficult choice when it comes to hiring consultants and independent contractors, especially if those consultants and independent contractors are creating or developing intellectual property as part of their services. California businesses face a critical decision in dealing with this conflict. Whichever decision the business makes could have lasting legal and practical consequences. As unpleasant and daunting as it may appear, California creative businesses are best served to enter into work-made-for-hire agreements only with corporate or limited liability company entities. This will ensure that the business obtains the entire copyright ownership interest in any intellectual property created by the contractor or employee for the full term of the copyright interest and will not trigger compliance requirements under California employment law. ■

.hollywoodreporter.com/blogs/thr-esq.

⁴ 17 U.S.C. §201(a).

⁵ 17 U.S.C. §201(b).

⁶ *Id.*

⁷ *Id.*

⁸ See 17 U.S.C. §106.

⁹ See LAB. CODE §§3351.5(c); see also UNEMP. INS. CODE §§621(d), 686.

¹⁰ LAB. CODE §3351.5. (The definition of “employee” includes a person engaged by contract for the creation of a specially ordered or commissioned work of authorship in which the parties agree in writing that the work shall be considered a work made for hire as defined in 17 U.S.C. §101.)

¹¹ UNEMP. INS. CODE §686 (definition of “employer”).

¹² UNEMP. INS. CODE §621 (definition of “employee”).

¹³ *Id.*

¹⁴ See 2016 California Employer’s Guide, available at http://www.edd.ca.gov/pdf_pub_ctr/de44.pdf.

¹⁵ *Id.*

¹⁶ Notice to Employees: Unemployment Insurance/Disability Insurance Benefits (DE 1857A) (poster advising employees of their rights to benefits).

¹⁷ Disability Insurance Provisions (DE 2515) (brochure regarding nonwork-related illness, injury, pregnancy, or childbirth), available at http://www.edd.ca.gov/pdf_pub_ctr/de2515.pdf.

¹⁸ Paid Family Leave Benefits (DE 2511) (brochure), available at (http://www.edd.ca.gov/pdf_pub_ctr/de2511.pdf).

¹⁹ *Id.*

²⁰ *Id.*

²¹ LAB. CODE §3700.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ See 26 I.R.C. §§3101-3128.

²⁸ *Id.*

²⁹ *Id.*

³⁰ 17 U.S.C. §204.

³¹ 17 U.S.C. §302(a).

³² 17 U.S.C. §203.

³³ *Id.*

³⁴ *Id.*

³⁵ See 17 U.S.C. §106.

³⁶ *Narayan v. EGL, Inc.*, 616 F. 3d 895 (2010) (provisions of the Labor Code may apply to California residents who have relationships with out-of-state companies).

³⁷ UNEMP. INS. CODE §§602, 603 (tests to determine if services of employees are considered subject to California law for unemployment insurance, employment training tax, and state disability insurance).

³⁸ U.S. CONST., art. VI, §2.

³⁹ *Id.*

⁴⁰ Copyright Act of 1976, PUB. L. NO. 94-553, 90 Stat. 2541 (Oct. 19, 1976).

⁴¹ See LAB. CODE §3351.5(c); See also UNEMPLOYMENT INS. CODE §§621(d), 686.

⁴² See *Pennsylvania v. Nelson*, 350 U.S. 497 (1956).

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ UNEMP. INS. CODE §623 (The term “employee” does not include any member of a limited liability company that is treated as a partnership for federal income tax purposes.); UNEMP. INS. CODE §621(f) (“Employee” includes any member of a limited liability company that is treated as a corporation for federal income tax purposes.) UNEMP. INS. CODE §622 (“Employee” does not include a director of a corporation or association performing services in his or her capacity as a director.).

⁴⁶ *Id.* See also LAB. CODE §§3354, 3351(d), 3715 (b).

¹ See LAB. CODE §3351.5(c); UNEMP. INS. CODE §§621(d), 686.

² See Peter H. Karlen, *Artists Rights Today*, 4 CAL. LAWYER 23 (1984); Joseph B. Anderson, *The Work Made for Hire Doctrine and California Recording Contracts: A Recipe for Disaster*, 17 HASTINGS COMM. & ENT. L.J. 587 (1995).

³ See, e.g., Heather Somerville, Former Uber driver was an employee, rules California department (Sept. 9, 2015), available at <http://www.reuters.com>; *Glatt v. Fox Searchlight Pictures*, No. 13-4478 (2d Cir. July 2, 2015); Eriq Gardner, *Interns’ Big Victory Against Fox Vacated by Appeals Court*, THR, ESQ. (July 2, 2015), available at [Los Angeles Lawyer March 2016 29](http://www</p>
</div>
<div data-bbox=)