

## INDEPENDENT CONTRACTORS

### POLICY AND GUIDELINES

Departments often require services of individuals who are not employees of Foundation or the University (CSUDH), including consultants, guest lecturers, guest speakers, entertainers, art models and others. When contracting with individuals as consultants/independent contractors, the designation of independent contractor status is governed by the Internal Revenue Service (IRS) tax code and common law. It is important to correctly classify independent contractors vs. employees to ensure appropriate compensation and compliance with all tax obligations.

Significant tax penalties exist for incorrect classification of an employee as an independent contractor. In addition, incorrectly contracting with independent contractors may expose Foundation and the University to significant risk. This policy is established to help define independent contractors and set forth the required procedures to identify and correctly compensate such individuals regardless of the source of funding.

Independent Contractor engagements with an expense of 10K or more must agree to maintain general liability coverage (or a program of self-insurance), comprehensive or commercial form, with minimum limits of at least \$1,000,000 per occurrence, \$2,000,000 general aggregate, and workers compensation as required by law (workers compensation is only required for contractors who hire employees to assist with the job). Such coverage must be obtained from a carrier rated at least A: VII or better by AM Best.

The following guidelines are provided to assist in the distinction between employer/employee vs. independent contractor relationships. These guidelines are based upon criteria used by the Internal Revenue Service, the State Employment Development Division, and other public service agencies.

Employees of the CSU system or any affiliated auxiliary enterprise, may not be classified as an Independent Contractor or paid through the accounts payable process due to additional employment rules enforced by the Chancellor's office. Payment to individuals who are employed by the CSU system or affiliated auxiliary enterprises must be hired and paid through Foundation payroll.

1. An independent contractor generally is engaged in a distinct occupation or profession, e.g., in the business of providing consulting or other services related to the job being contracted.
2. Independent contractors perform independently; whereas, under an employer/employee relationship the employer retains the right to direct and control the work being performed, as well as control over the details or techniques of the work to be performed.
3. The working area, supplies, and/or equipment generally is not furnished to independent contractors.
4. Compensation for independent contractors is reflective of the specific work accomplished; whereas, employment relationships are generally compensated by payment of a set sum by the hour, week or month based on set hours of work.
5. The work being performed must not be of a type that is integrated into routine or ongoing employer operations.
6. The employer must not make direct payments for business, per diem, or travel expenses incurred by the independent contractor.
7. An employment relationship exists when the worker can quit or be terminated at any time; whereas, an independent contractor is legally obligated for failure to complete the job unless the agreement is terminated.

**The responsibility for ensuring the procedure is followed belongs to the Program.**

**PROCEDURES:**

- Review the attached **Guidelines for Classifying Independent Contractors**
- No Contractor/Consultant may begin work until forms are signed by HR.
- No PO or Check Request should be created until an approved IC form is on file.
- Program/Department/College complete this form: [Independent Process Contract Approval Form](#)
- Independent Contractor needs to complete this: [Independent Contractor Packet](#)
- Attach the service provider's scope of work or proposal outlining the services, timelines, and costs
- Most Independent Contractors will need to enter into agreement beyond the Independent Contractor Packet that will serve as documentation to the agreed terms such as time, date, compensation and expectations of speaker and the sponsoring program, etc. For contract templates please contact Jinna Matzen, [jmatzen@csudh.edu](mailto:jmatzen@csudh.edu)
- Independent Contractor engagements with an expense of 10K or more must agree to maintain general liability coverage (or a program of self-insurance).
- Even if an Independent Contractor has provided a service under in the past, if this is a new engagement, the process noted above must be followed again as the terms will be different.
- The Independent Process Contract Approval Form and Independent Contractor Packet must be submitted to Foundation Human Resources & Payroll Director Amanda Dodd for review and approval prior to the commencement of work.
- Once approved by HR, a formal contract can be drafted by contacting Customer and Board Relations Manager Jinna Matzen. If the Independent Contractor does not have insurance and needs assistance obtaining insurance please contact Jinna Matzen, [jmatzen@csudh.edu](mailto:jmatzen@csudh.edu)
- After the execution of all documents a PO or Check Request can be submitted. Refer to [Accounts Payable Policy](#) for additional details.

Upon review and approval by Human Resources and Customer Relations and receipt of appropriate insurance (if applicable), a service order or agreement will be generated to the Service Provider with a copy to the requesting department.

Independent Contractors are subject to the same CSU policies for services in general in that work shall not commence until Service Provider has received an executed service order/agreement. Payment shall be made in arrears, upon receipt of approved invoice by Foundation's Accounts Payable Office, within 30 calendar days of satisfactory completion of services.

**POLICY AND PROCEDURE VIOLATIONS**

- Violations regarding noncompliance will be reported the department head, VP or Dean.
- Failure to seek approval in advance is a violation and will be reported to appropriate department heads, VP and Deans.
- Violations require mandatory Independent Contractor Process training.

### Guidelines for Classifying Independent Contractors

An independent contractor is engaged in a distinct profession and is in the business of providing services related to the job being contracted. Independent contractors have total control over the work being performed, generally set their own hours, pay for their own business expenses, and provide their own equipment, liability insurance, and office space.

The basic test for determining whether a worker is an independent contractor or an employee is whether the principal has the right to direct and control the manner and means by which the work is performed. When the principal has the "right of control," the worker will be an employee even if the principal never actually exercises the control. If the principal does not have the right of direction and control, the worker will generally be an independent contractor.

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6. The employer must not make direct payments for business, per diem, or travel expenses incurred by the independent contractor.
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If, on the face of the relationship, it is not clear whether the principal has the "right of control," there are secondary factors that are considered to determine the existence or nonexistence of the right of control. The Foundation's Independent Contractor Approval Form Addendum includes a series of determination questions that can be utilized as secondary factors to consider.

The courts have considered many facts in deciding whether a worker is an independent contractor or an employee. These relevant facts fall into three main categories: *behavioral control*; *financial control*; and *relationship of the parties*. In each case, it is very important to consider all the facts - no single fact provides the answer. Carefully review the following definitions.

### **Behavioral Control**

These facts show whether there is a right to direct or control how the worker does the work. A worker is an employee when the business has the right to direct and control the worker. The business does not have to actually direct or control the way the work is done – as long as the employer has the right to direct and control the work.

For example:

- Instructions - if you receive extensive instructions on how work is to be done, this suggests that you are an employee. Instructions can cover a wide range of topics:
  - How, when, and where to do the work
  - What tools or equipment to use
  - What assistants to hire to help with the work
  - Where to purchase supplies and services
- If you receive less extensive instructions about what should be done, but not how it should be done, you may be an independent contractor. For instance, instructions about time and place may be less important than directions on how the work is performed.

### **Financial Control**

These facts show whether there is a right to direct or control the business part of the work.

For Example:

- Significant Investment - if you have a significant investment in your work, you may be an independent contractor. While there is no precise dollar test, the investment must have substance. However, a significant investment is not necessary to be an independent contractor.
- Expenses - if you are not reimbursed for some or all business expenses, then you may be an independent contractor, especially if your unreimbursed business expenses are high.
- Opportunity for Profit or Loss - if you can realize a profit or incur a loss, this suggests that you are in business for yourself and that you may be an independent contractor.

### **Relation of the Parties**

These are facts that illustrate how the business and the worker perceive their relationship.

For example:

- Employee Benefits - if you receive benefits, such as insurance, pension, or paid leave, this is an indication that you may be an employee. If you do not receive benefits, however, you could be either an employee or an independent contractor.
- Written Contracts - a written contract may show what both you and the business intend. This may be very significant if it is difficult, if not impossible, to determine status based on other facts.

<u>In this activity</u>	<u>An employee...</u>	<u>An independent contractor...</u>
Following direction	complies with Foundation instructions about when, where, and how to do the work	determines own direction on when, where, and how to do the work
Training	receives training from or at the direction of Foundation	acquires own training independently of Foundation
Operational integration	if separated from operation, affects its performance	is separable from the operation without affecting performance
Personal involvement	is required to render the services in person	may render services personally or through others
Hiring and supervision	hires and supervises Foundation employees	does not hire or supervise Foundation employees
Continuity	continues in employ of Foundation	may work sporadically for Foundation
Schedule	follows Foundation work schedule	follows own work schedule
Full time	works full time for University/Foundation	may work for other employers while at Foundation only part time
Facilities	uses University/Foundation facilities for work	has own facilities for the work
Work sequence	performs the work in the sequence specified by Foundation	works according to own sequencing of the work
Reports	reports progress regularly	reports when work is complete
Payment	is paid on a regular periodic basis at set amounts	is paid as work is completed, possible progress payments
Business and Travel reimbursement	is reimbursed for travel expenses	pays own travel expenses or may include them in contract
Tools and materials	uses Foundation's tools and materials	supplies own tools and materials
Investment	has not invested in facilities to perform the services	has invested in own facilities to do the work
Business risk	cannot make a profit or suffer a loss from the services	makes a profit or suffers a loss based on services rendered
Exclusivity	works only for Foundation	may work for other employers while working for Foundation
Publicity	does not offer services to the general public	offers services to the general public as through advertising
Dismissal	can be dismissed from employment	cannot be dismissed as long as the work satisfies the contract
Performance liability	can quit with no liability for completion of the work	is liable for failure to complete the work.