Drexel University

Drexel University College of Medicine

Academy of Natural Sciences at Drexel University

OVERVIEW of INDEPENDENT CONTRACTOR CLASSIFICATION POLICY
What is the classification process?

Who does it apply to?

Why is it important?

Guidelines for determining independent contractor status

Special situations

What do I do when I engage an outside service provider?
Purpose of Independent Contractor Classification Determination

To determine if a service provider is:

- An employee subject to tax withholdings (receives a W-2 Form) or
- An independent contractor responsible for paying their own taxes (receives Form 1099-MISC).
Applies to outside service providers and consultants who are:

- Corporations – considered independent contractors
- Partnerships – considered independent contractors
- Limited liability companies – requires careful evaluation
- Sole proprietors – requires careful evaluation
- Individuals – requires careful evaluation
Why the determination process is important:

- To comply with federal and state guidelines for consistent and fair classification of workers and
- To avoid taxes, penalties and interest assessed for noncompliance.
The more control the University has over a service provider, the more likely it is that the service provider will be an employee rather than an independent contractor. Factors for determining independent contractor status fall into three categories.
- **Behavioral control** relates to whether the University has a right to direct and control how the services will be performed. In general, anyone who performs services for the University is an employee if the University has the right to control what will be done and how it will be done.
Financial control looks at whether a service provider has the ability to affect financial decisions connected with the services performed such as realizing a profit or loss and assuming the cost of unreimbursed expenses.

Relationship between the parties looks at how the relationship is perceived including whether there is a written contract or if benefits are provided.
Special Situations

- The IRS will almost always consider current or former employees who are engaged for work outside their normal duties to be EMPLOYEES.

- Students will most often be characterized as EMPLOYEES.
Special Situations, continued...

- For speakers, lecturers and colloquium participants receiving honoraria payments of less than $600 in the calendar year.....

  - A Certification Form is not required.
  - A Speakers Agreement is required.
  - A W-9 Form is required before payment is issued.

- Special rules apply to foreign individual service providers. Business administrators should contact the Office of Tax Compliance prior to the engagement at taxoffice@drexel.edu or (215) 895-6880.
BEFORE engaging an outside service provider who is an individual, sole proprietor or member of a limited liability company:

1. The service provider must complete and sign the **Certification for Determination of Independent Contractor Status Form.** The University employee contracting for the services AND the employee’s supervisor must both sign the Certification to attest to the completeness and accuracy of the information provided. The Certification form is available at [http://www.drexel.edu/depts/compt/tax/ic_info.html](http://www.drexel.edu/depts/compt/tax/ic_info.html).

2. **Submit the Certification to the University Office of Tax Compliance for review and approval.** The Office of Tax Compliance will confirm whether the information provided demonstrates that the service provider meets the requirements for classification as an independent contractor and notifies the contracting business administrator if approved or disapproved.
BEFORE engaging an outside service provider who is an individual, sole proprietor or member of a limited liability company, continued...

3. If the Certification is approved……

a. Contact the Office of General Counsel for an independent contractor or consulting agreement.

- The Academy of Natural Sciences:
  Contact: 215-895-1433. Refer to the Contract Protocol Policy
  [http://www.drexel.edu/generalcounsel/drexelpolicies/OGC-3](http://www.drexel.edu/generalcounsel/drexelpolicies/OGC-3)

- Template Agreements

- Drexel University:
  Contact: 215-895-1433. Refer to the Contract Protocol Policy at

  Template Agreements

- DUCOM:
  Contact: 215-255-7835. Refer to the Contract Protocol Policy at
BEFORE engaging an outside service provider who is an individual, sole proprietor or member of a limited liability company, continued...

3. If the Certification is approved......


c. Obtain competitive bids for consulting services that exceed $2,500. Consult the policy on Guidelines for Sole Sourcing and Competitive Bid Exception at http://www.drexel.edu/procurement/makingPurchases/bidExceptions
Resources...

- Consult: [http://www.drexel.edu/depts/compt/tax/ic_info.html](http://www.drexel.edu/depts/compt/tax/ic_info.html) for the complete Independent Contractor Classification Policy

- Office of Tax Compliance:
  - Certification: 215-895-1463
  - Foreign Individual Service Providers: 215-895-6880

- Office of General Counsel:
  - Drexel University: 215-895-1433
  - DUCOM: 215-255-7835

- Accounts Payable:
  - Lillian Clegg, AP Manager, DUCOM/ANS: 215-895-1250
  - Kimberlee Smegal, AP Manager, Drexel: 215-895-6190