
PAYROLL ADMINISTRATION

INDEPENDENT CONTRACTORS AND OTHER PAYMENTS TO NON-EMPLOYEES

SUMMARY

INDEPENDENT CONTRACTORS

An independent contractor is an individual or non-corporate business entity that provides personal services to the University. An individual may be classified as an independent contractor as opposed to an employee if he/she meets independent contractor conditions as established by Internal Revenue Service (IRS) criteria. Some examples of independent contractors are consultants, editors, photographers, caterers, musicians, and performers.

To be classified as independent contractors, individuals generally have a separate workplace, are not supervised when they are working within the organization, have a separate set of skills not available within the organization, and have other clients. Additional criteria are listed on the back of the Contract for Personal Services (University Form B-33) to help in determining the status of an individual. A Form B-33 must be completed for all independent contractors. Individuals who do not meet the criteria for classification as an independent contractor must be paid as employees.

When payments to independent contractors total \$600 or more, a purchase order is required. Costs of travel performed under the terms of the engagement should be negotiated and included as part of the total contract fees. Fees and travel expenses should be submitted on an invoice. If no invoice is presented, a check requisition (Form B-32) may be submitted for payment. Independent contractors should retain travel receipts.

Individuals not meeting the criteria for an independent contractor may be hired as temporary, limited, part-time, or casual employees. Divisional personnel offices will assist departments in identifying appropriate pay grades and hourly rates.

Faculty and staff of the University who provide professional advice to other departments may be paid a supplement through the payroll system for these services. University faculty who collaborate on grant proposals are not to be listed as consultants. Faculty may not serve as paid consultants to other JHU faculty on grant proposals submitted to the federal government.

HONORARIA

An honorarium is a onetime tax-reportable payment to a non-University employee for general service in education, research, or public service where the University does not expect nor is payment contingent upon a particular result. Examples are guest lecturers, presentation of research results, and workshop leaders. A Contract for Personal Services (Form B-33) is not required.

Departments may authorize reimbursement to visiting lecturers for expenses incurred in connection with their travel to the University. Travel expenses and associated receipts should be submitted on a Non-Employee Travel and Entertainment Expense Report (Form B36-NE). Reimbursed travel expenses are not included in gross receipts on 1099s issued to visiting lecturers.

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PRIZES AND AWARDS

Prizes and awards are classified by the IRS as tax-reportable income. A Contract for Personal Services (Form B-33) is not required. Prizes and awards to employees, which recognize professional achievements related to employment, are paid through payroll. IRS Form 1099s are issued to recipients of prizes and awards who are non-employees or students whose part-time employment has no professional connection to the award.

FELLOWSHIPS

Fellowships are paid through payroll.

TAX REPORTING

At the end of every calendar year, the University issues IRS Form 1099s to all independent contractors if payments (including professional fees and travel expenses) equaled \$600 or more throughout the year. Recipients of honoraria, prizes, awards, and royalties also receive 1099s. All payments, regardless of amount, are reported to the IRS, as well. Failure to do so risks fines, penalties, and back taxes for the recipients as well as the University. IRS Form 1099s are mailed to the recipient's home address. If the IRS informs the University that a Social Security number is invalid, the University has a responsibility to request a completed Form W-9 from the payee. For these reasons, the payee's home address must accompany all requests for payment.

INTERNAL CONTROLS

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| OBJECTIVES |
| <ul style="list-style-type: none">• Individuals are classified correctly as either an employee or consultant/independent contractor for tax withholding purposes |
| RISKS |
| <ul style="list-style-type: none">• Non-compliance with federal regulations• Non-compliance with University policies• Fines and penalties |

AUDIT CHECKLIST

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| | Has the department determined the classification of an individual as either an independent contractor/consultant or employee by following IRS criteria? |
| | If a contractor meets the independence criteria, has the department completed a Contract for Personal Services Rendered by a Consultant/Independent Contractor (Form B-33)? |
| | Has the Form B-33 been signed by the independent contractor/consultant, the department administrator and head, or dean? |
| | If the cumulative payment to the independent contractor/consultant was \$600 or more, was a purchase order request completed? |
| | If the independent contractor is a University employee, are payments being made through the payroll system, and is the documentation reviewed and approved by divisional human resources offices and divisional business offices? |

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SOURCES FOR POLICY

Administrative Bulletin (<http://www.controller.jhu.edu/admbull.htm>)
Independent Contractors and Consultant Guide
(<http://128.220.185.18/images/Indepcon/Titlepg.htm>)

RESOURCES FOR ASSISTANCE

Accounts Payable, Office of the Controller, 410-516-6688
Divisional Human Resource Offices
(see list of addresses and phone numbers in Offices to Contact section)
IRS Web Site (<http://www.irs.gov>)
Payroll, Office of the Controller, 410-516-8146
Tax Office, Office of the Controller, 410-516-8442

FORMS ON THE WEB

Independent Contractor (B-33) (<http://www.controller.jhu.edu/uforms/B-33-fr.pdf>)