Individual Service Provider Classifications

FY 2025
Transition to Division of Finance

• January 2024

• Send completed, signed worker classification forms by submitting a ticket through the BEN Helps Support Portal.

• Minor updates to the worker classification forms

• Individual Service Provider Classification website
What is an *independent contractor*?

- A non-employee worker who provides services to the University
- not a Penn faculty, staff, or student
- not entitled to benefits or workers’ compensation
- paid through Penn Marketplace rather than Workday
The common law rules consider evidence of the degree of control and independence to examine the relationship between the worker and the business. The facts that provide this evidence fall into three categories – behavioral control, financial control, and relationship of the parties.
**Behavioral Control**

Does the company control or have the right to control what the worker does and how the worker does his or her job?

- Type of instructions given
- Degree of instruction
- Evaluation systems
- Training
Financial Control

Are the business aspects of the worker’s job controlled by the payer?

- Significant investment
- Unreimbursed expenses
- Opportunity for profit or loss
- Services available to the market
- Method of payment
Type of Relationship

Refers to facts that show how the worker and business perceive their relationship to each other.

- Written contracts
- Employee benefits
- Permanency of the relationship
- Services provided as key activity of the business
**Other Compliance Requirements**

Internal Revenue Service  
U.S. Department of Labor  
State Regulations
Financial Policies

• 2319 Payment to Individuals for Human Subject Fees, Honoraria, Limited Engagements and Independent Contractor Services

• 2319.3 Limited Engagement Policy

• 2319.4 Procurement and Reporting of Independent Contractors
What is an honorarium?

An honorarium is a gratuitous payment of money or other thing of value to a person for their participation in a usual academic activity for which no fee is legally required.
When can a payment be processed as an honorarium?

- Payment not negotiated or set in advance
- Individual unaffiliated with Penn (non-faculty/staff/student)
- Payment for usual academic activity
Determining Worker Classification
SPQ/SPE Forms

Service Provider Questionnaire
Service Provider Evaluation Worksheet
ISP Process Overview

School or Center

- Requests service provider complete & sign Service Provider Questionnaire
- Reviews Service Provider Questionnaire and completes Service Provider Evaluation
- Forwards SPQ & SPE to Compliance Specialist via BEN Helps Support Portal

CTC&P Compliance Specialist or GSS

- Reviews SPQ and SPE and determines classification
  - Independent Contractor – Compliance Specialist returns paperwork via BEN Helps for IC processing
  - Employee – Compliance Specialist returns paperwork via BEN Helps to initiate hiring process

School or Center

- Independent Contractor - School or center representative creates a Purchase Order in the Penn Marketplace, attaches the signed SPQ, SPE, & supporting documents
- Employee – School or center representative contacts HR to initiate hiring process
What is a **limited engagement**?

- a service of an academic nature, short duration, and low dollar amount
- $1,000 or less per transaction, $5,000 calendar year max
- guest speakers, guest lecturers, artists, performers, writers, editors, board members, critics, preceptors, mentors
- not for Penn faculty, staff, or student
Limited Engagement Forms

Limited Engagement Agreement – U.S. Persons
Limited Engagement Agreement – Nonresident Alien
Limited Engagement Agreement – Global
Limited Engagement Process Overview

School or Center

• Requests service provider complete & sign Limited Engagement Agreement
• Forwards the LEA to the Compliance Specialist via BEN Helps Support Portal

CTC&P Compliance Specialist

• Reviews Limited Engagement Agreement, signs, and returns form via BEN Helps Support Portal

School or Center

• School or center representative creates a non-PO Payment Request in the Penn Marketplace, attaches the signed LEA & supporting documents
Service Providers Abroad

- Global Support Services
- Professional Employer Organizations (PEO)
- More lead time
Payments to Students and Employees

- Students ≠ independent contractors
- Current & recent employees ≠ independent contractors
- Supplemental Pay
Cost of Misclassification to the School or Center

- $50 per unfiled W-2
- Penalty of 1.5% of wages paid
- 20% of employee’s share of FICA taxes
- 100% of the matching taxes the employer should have paid
- Failure to pay penalty = 0.5% of the unpaid tax liability for each month up to 25% of the total tax liability
- Up to $10,000 penalty per worker for intentional misclassification
Questions?