

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



IRS Common Law Rules

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



© Vermaps.com

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?



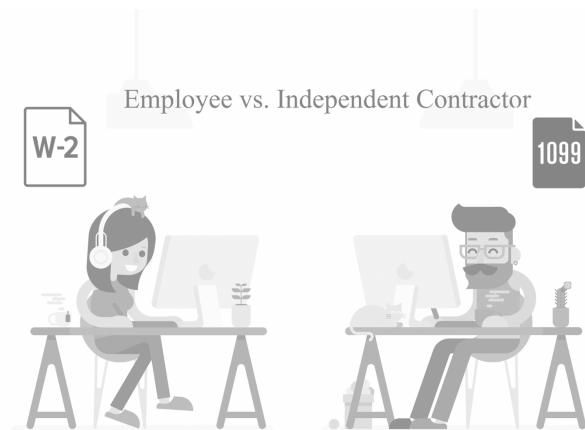
An honorarium is a gratuitous payment of money or other thing of value to a person for their participation in a usual academic activity for which no fee is legally required.

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

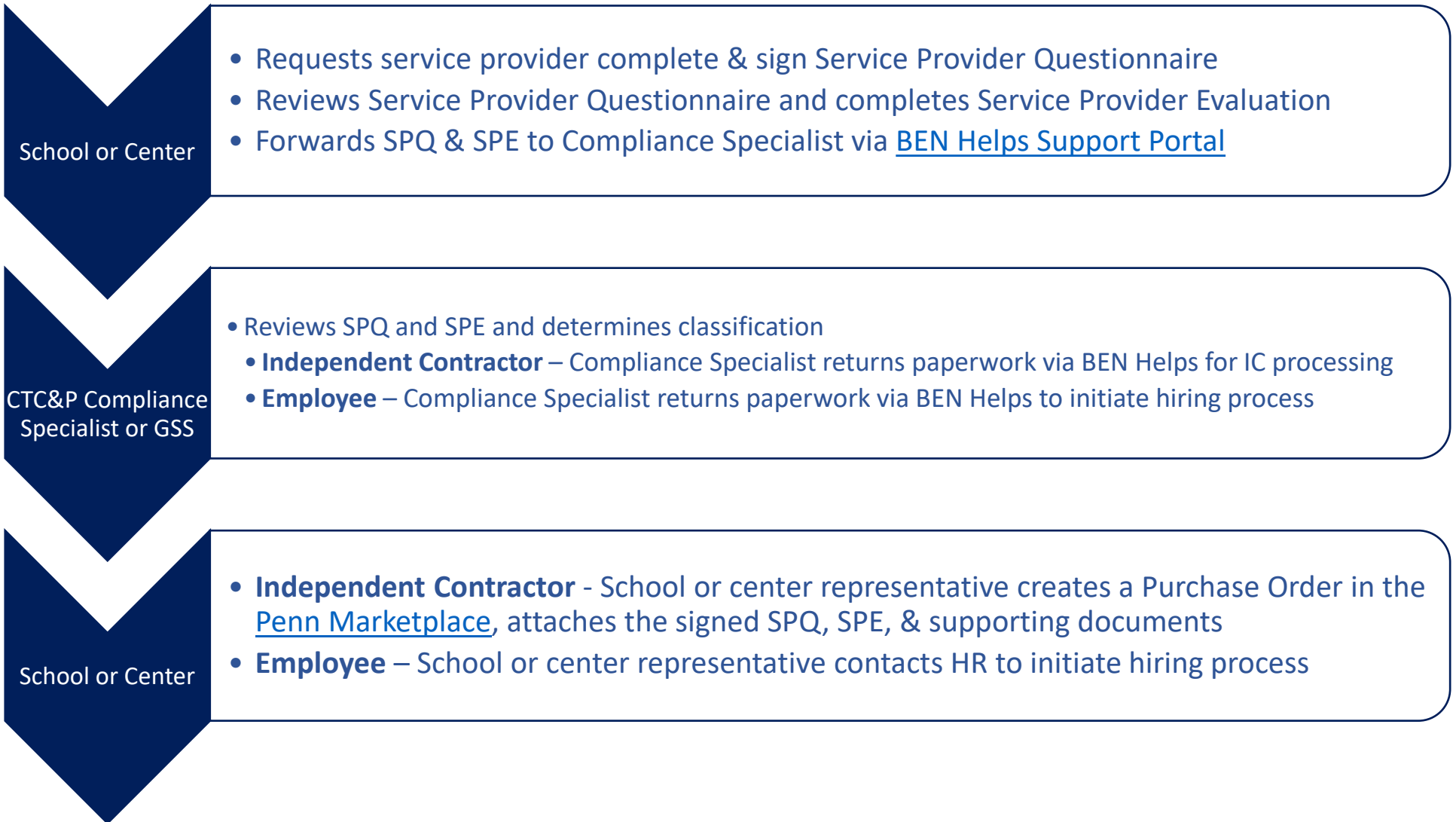


SPQ/SPE Forms

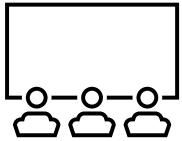
[Service Provider Questionnaire](#)

[Service Provider Evaluation Worksheet](#)

ISP Process Overview



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



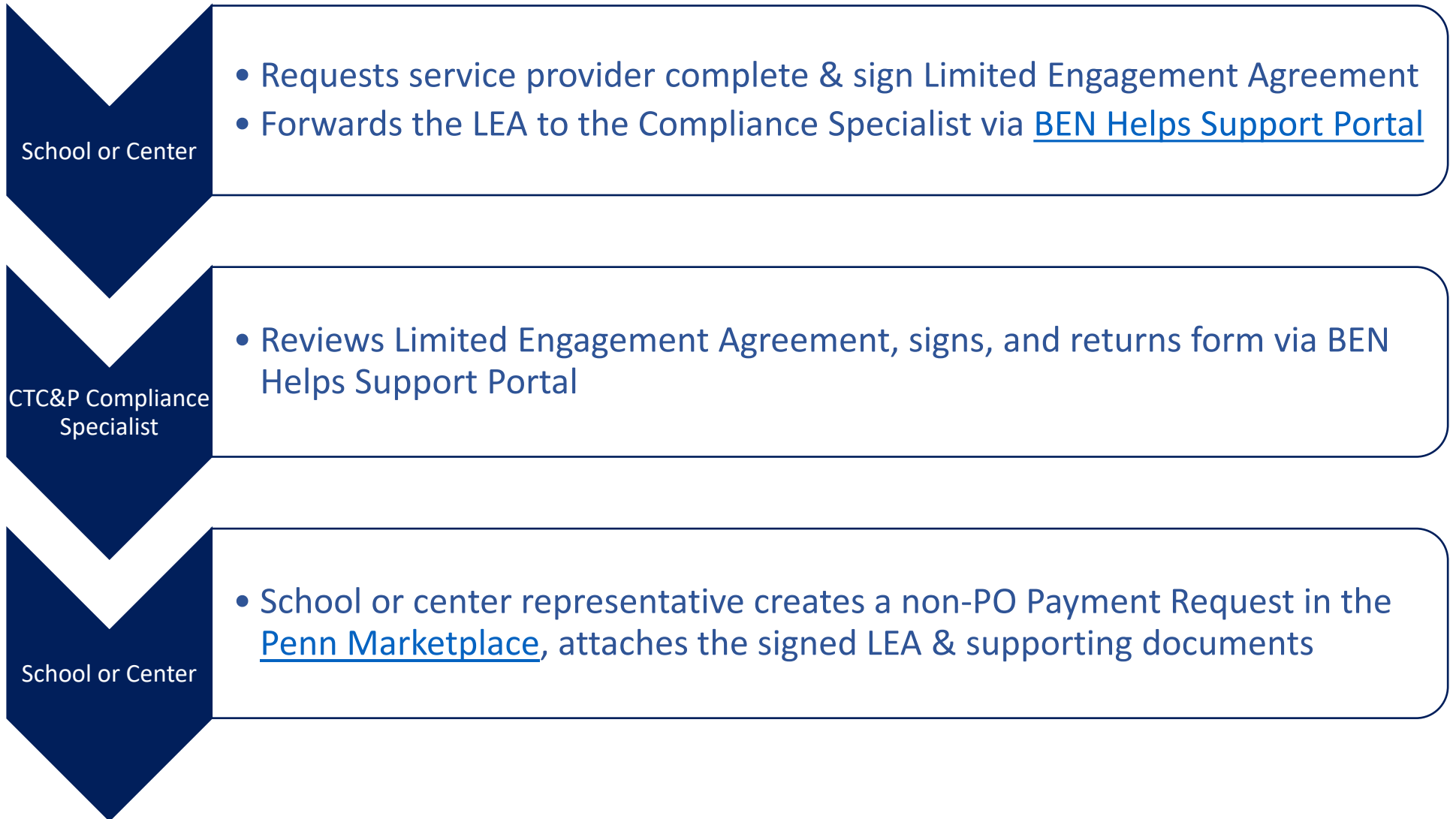
Limited Engagement Forms

[Limited Engagement Agreement – U.S. Persons](#)

[Limited Engagement Agreement – Nonresident Alien](#)

[Limited Engagement Agreement – Global](#)

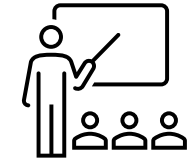
**Limited
Engagement
Process
Overview**



Service Providers Abroad

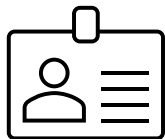


- Global Support Services
- Professional Employer Organizations (PEO)
- More lead time



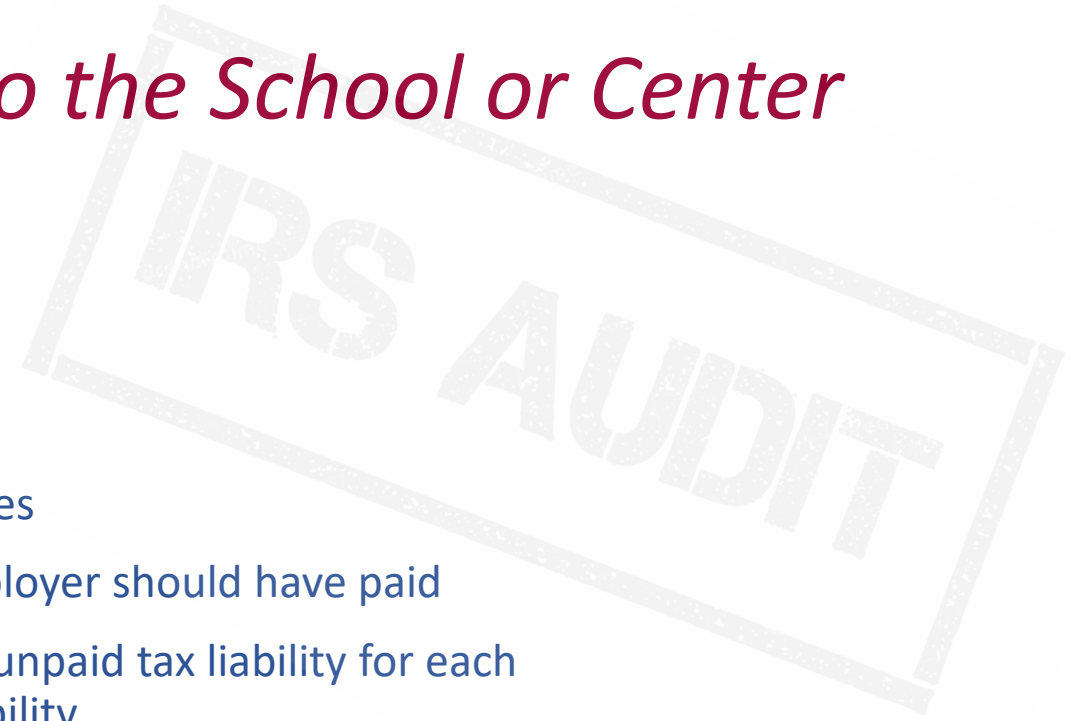
Payments to Students and Employees

- Students \neq independent contractors
- Current & recent employees \neq 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?