

Payments to Individuals

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Where do I send my payment request?

- ▶ Payments are treated differently based on whether the payment is for dependent or independent services
 - Dependent services = temporary employee (Human Resources/Payroll)
 - Independent services = independent contractor (Accounts Payable)

Independent Contractor Determination

- ▶ How do you know if the person is an independent contractor?
 - Ask yourself, “Who’s in charge?” The IRS uses three general criteria to determine the relationship between the college and workers:
 1. Behavioral control
 2. Financial control
 3. Type of relationship

Independent Contractor Determination

- ▶ Determine where the buck stops.
 - What risk of loss does the worker have?
 - Do they pay for and use their own tools (computer, printer, high-speed, etc.), or does the college provide them with what they need?
 - Do they hire other workers and pay them?
- ▶ Who is being paid?
 - Is the check written to “Jane Doe” or “Jane Doe, Inc.”

Can a current employee also be an independent contractor?

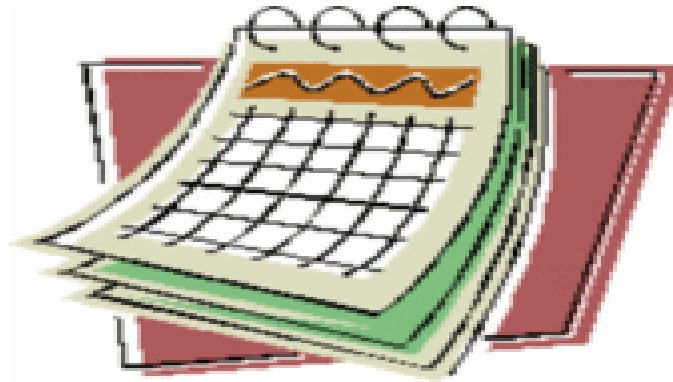
- ▶ If the payee is a current employee, then it is **unlikely** that a contractor relationship is present
- ▶ The employee should complete a time card (if non-exempt), and overtime will apply for hours worked >40 in a work week

So...they are a temporary
employee

Now what?

Temporary Employee

Definition: Generally, a temporary employee is one who is employed for a short term to complete a special project or to be on call during a department's peak load period, etc.



Temp Employees: Important Steps

- ▶ Obtain approval to hire a temp
 - Double check that there is budget available
- ▶ Complete Temporary Employee Offer Worksheet
 - Available at: <http://www.luther.edu/hr/faculty-staff/common-forms/>
 - Consult HR for appropriate rate of pay
 - Appropriate Vice President must approve and sign form before the person begins work
 - Any overtime must be pre-approved by the supervisor

What if we won't be paying the individual?

- ▶ There are times when a person volunteers his or her time to the college
 - Before the volunteer service begins, the Luther sponsor should...
 1. obtain the Volunteer Agreement form
 2. have the form signed by the volunteer
 3. return it to Human Resources
 - A Volunteer Agreement form may be found at <http://www.luther.edu/hr/faculty-staff/common-forms/>

Volunteers

- ▶ **Volunteers agree that**
 - They will neither receive nor expect to receive compensation for services
 - They will be covered by the worker's compensation coverage
 - They will not be considered employees of the college

- ▶ **Background checks**
 - Volunteers who will be providing services to our students or will be volunteering through a Luther recognized camp or activity involving minor children will require a completed background check prior to their first day of volunteer service

Background Checks

- ▶ Employees and volunteers may need to complete a background check prior to their first day of service
 - The cost associated with background checks will be charged to the sponsoring department

Paperwork for New Employees

- ▶ If the person has not been paid by Luther in the last year, we could need the following forms:
 - I9
 - Federal W-4
 - State W-4
 - Direct Deposit

Paperwork for New Employees

▶ I9

- Verifies employment eligibility and identity. Employees must complete Section One by the end of their first day. Within three days, they must also present documents verifying their identity and eligibility for employment in the United States.

▶ Federal W-4 and State W-4

- These forms control how much is taken out for state and federal income taxes. They must be turned in at least one week before the employee's first payroll.

▶ Direct Deposit

- Authorizes us to deposit their pay directly into their bank account(s). This form should be turned in at least one week before the employee's first payroll.

What if the employee was recently employed by Luther?

- We would still like the employee to verify that we can use the direct deposit information and W-4's on file

What Payments to Employees Count as Compensation?

- ▶ Anything given to an employee is compensation and must be processed through payroll unless specifically excluded in the tax code.
 - Cash, gift cards, and gift certificates are always taxable, no matter how small the amount, and must be run through payroll.
 - Small, infrequent, tangible gifts are not compensation under the de minimis rule.

Taxable Compensation Examples

Taxable

- ▶ Supervisor buys lunch every other Friday
- ▶ Season tickets to all Center Stage Series events
- ▶ iPad
- ▶ Any amount of cash, gift card, or gift certificate

Must be run through payroll

Non-Taxable

- ▶ Supervisor buys lunch twice per year
- ▶ One ticket to a Center Stage Series event
- ▶ Coffee mug, sweatshirt, or DVD
- ▶ Pizza party or coupon for one Marty's cookie

Do not need to be run through payroll

**So...they are an
independent contractor**

Now what?

Payments to Independent Contractors

- ▶ Types of payments made through Accounts Payable (AP) include:
 - Honoraria requests for guest speakers
 - Construction contractors doing work on college buildings
 - Referees/Umpires
 - Consultants
 - Best practice is to contact Human Resources or Financial Services to make a determination

Payments to Independent Contractors

- ▶ Required paperwork
 - Independent contractors must complete a W-9, Request for Taxpayer Identification Number
 - This form can be used to request the correct name and Taxpayer Identification Number (TIN) of the contractor
 - A TIN can be either a social security number (SSN) or an Employer Identification Number (EIN)
 - The form should be completed and returned to Financial Services before the work has been initiated

Payments to Independent Contractors

- ▶ Required paperwork, continued
 - Copy of agreement for services
 - Ideally, a direct deposit (e-check) form should be completed by the payee
 - Financial Services will provide the independent contractor with a 1099-MISC, if applicable

Background Checks

- ▶ Depending on the nature of the services, the independent contractor may be responsible for completing background checks

**What if the individual is not
from the United States?**

Payments to Foreign Individuals

- ▶ Is the payee a US citizen or legal permanent resident (green card holder)?
 - If no, work with Andrew Bailey in advance to arrange for the payment to be made appropriately
 - Information about prior visits to the US will be needed to determine if payee is a US resident for tax purposes or nonresident alien for tax purposes

Payments to Foreign Individuals

- ▶ Can I make a payment to a nonresident alien for tax purposes?
 - Answer depends on visa status, length of service, and other payments the individual may have received from other US entities
 - Reimbursement of travel costs will require 30% tax withholding if individual is ineligible for payment for services

Payments to Foreign Individuals

- ▶ Does my international visitor need to do anything special when he or she is on campus?
 - Arrange for the payee to meet with Andrew Bailey while on campus
 - Copies of the payee's passport and immigration documents are needed
 - There may be tax forms for the payee to sign

Questions?

- ▶ Employee/Volunteer Questions
 - Sheryl Sievert, HR Assistant: x1134
- ▶ Payroll Questions
 - Korrine Jackson, Payroll Specialist: x1135
- ▶ Independent Contractor Questions
 - Karen Dallenbach, Accounting Assistant: x1533
- ▶ Foreign Individual Questions
 - Andrew Bailey, Senior Accountant: x1697

Appendix

Additional Information on Payroll Forms

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- W-4
- Direct Deposit

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- ▶ Section One of the I9 is relatively simple and must be filled out by the end of the employee's first day of work. The employee can fill it out on their own and bring it with them on their first day.
- ▶ Section Two of the I9 must be filled out by the employer by the third day after the employee's first day of employment. For instance, if an employee starts on a Thursday, Section Two must be completed by the end of the day on Sunday.
- ▶ For the employer to be able to complete Section Two, the employee must present documents that establish their identity and eligibility for employment in the United States.
- ▶ A complete list of acceptable documents is included with the form.
- ▶ We cannot tell them what documents to use, that is up to the employee.
- ▶ The employee must bring physical documents.
- ▶ Photocopies, even if notarized, are not acceptable.
- ▶ If Section Two has not been completed by the third day after the employee's first day, the employee can no longer work for Luther until they bring in the required documents.

W-4

- ▶ A federal and state W-4 needs to be completed so an appropriate amount of tax can be withheld
- ▶ These forms are confusing to most people; HR/Payroll will explain how to fill them out, but cannot give tax advice
- ▶ If the employee doesn't turn in W-4s, Luther must withhold taxes at the highest level

Direct Deposit Form

- ▶ Employees are strongly encouraged to use direct deposit
- ▶ The funds are available to the employee sooner
- ▶ There is no check that can be lost or stolen.
- ▶ Anyone who does not turn in a direct deposit form will be issued a check
- ▶ Checks cannot be mailed without the employee's written permission