## Determining Pay Status—Employee or Contractor

### Coordinating Offices

<table>
<thead>
<tr>
<th>Payee Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Human Resource Services coordinates employment activities.</td>
</tr>
<tr>
<td>Independent Contractors</td>
<td>WSU's Division of Purchasing coordinates activities related to independent contractors.</td>
</tr>
<tr>
<td>Both Employees and Independent Contractors</td>
<td>Payroll Services provides assistance in determining proper pay status, as well as the appropriate taxation method for all types of payments.</td>
</tr>
</tbody>
</table>

### Types of Payee Relationships

<table>
<thead>
<tr>
<th>Payee Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>An employee is under the direction and control of the employer. The employer not only controls what is done, but also the method by which it is done. The employer has the right to discharge or terminate an employee.</td>
</tr>
<tr>
<td>Independent Contractor</td>
<td>An independent contractor:</td>
</tr>
<tr>
<td></td>
<td>• Controls the means and methods of activities.</td>
</tr>
<tr>
<td></td>
<td>• Realizes profit or loss from services.</td>
</tr>
<tr>
<td></td>
<td>• Works for more than one firm at a time.</td>
</tr>
<tr>
<td></td>
<td>• Makes services available to the general public.</td>
</tr>
<tr>
<td></td>
<td>• Has a significant investment in tools and materials.</td>
</tr>
<tr>
<td></td>
<td>• Furnishes tools and materials for job.</td>
</tr>
</tbody>
</table>

### Determining Payee Status

Several factors are used to determine payee status. Among these factors are two relationship tests, the common law test and the ABC test, which focus on the employer’s right to control.

For additional information on this topic, see the Payment Decision Tree webpages on the Payroll Services website at:

www.wsu.edu/payroll/
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The Common Law Test

According to the Common Law Test, an employer/employee relationship exists when the worker is subject to the employer's will and control concerning what needs to be done and how it should be done. The employer must have sufficient control of, or the right to control, the work being done in order to establish an employee/employer relationship. (Sec. 530, 1986 Tax Reform Act)

IRS Factors

According to the Internal Revenue Service (IRS), three categories of facts are considered when determining payee status:

- Behavioral control.
- Financial control.
- Type of relationship between the parties involved.

*(Employer's Supplemental Tax Guide, IRS Publication 15-A)*

To view IRS Publication 15-A, go to the IRS website at:

www.irs.gov/

Behavioral Control Facts

Behavioral control facts show whether or not the business has the right to direct and control how the worker performs the tasks. These facts include the type and degree of the following:

- Instructions the business gives the worker.

  Generally, an employee is subject to the business' instructions about when, where, and how to work. The key consideration is whether the business has retained the legal right to control both the results and the method of the work or services.

- Training the business gives the worker.

  An employee may be trained to perform tasks in a certain manner. An independent contractor usually uses his or her own methods.

Financial Control Facts

Financial control facts show whether or not the business has a right to control the business aspects of the worker's job. These facts include:

- Extent to which the worker has unreimbursed business expenses.

- Extent of the worker's investment.
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Financial Control Facts (cont.)

- Extent to which the worker makes services available to the relevant market.
- How the business pays the worker.
- Extent to which the worker can realize a profit or loss.

Type of Relationship Facts

Facts that show the type of relationship include:

- Written contracts describing the relationship the parties intended to create.
- Whether or not the business provides the worker with employee-type benefits, such as insurance, pension plan, vacation pay, or sick pay.
- Permanency of the relationship.
- Extent to which services performed by the worker are a key aspect of the regular business of the organization.

It is more likely the business will have the right to direct and control the worker's activities if the worker provides services that are a key aspect of regular business activity.

The ABC Test

The ABC Test states that a paid service is employment, unless:

- Worker is free from control or direction in the performance of his/her service.
- Service is outside the usual course of business and outside the usual place of business.
- Worker is customarily engaged in an independently established trade, occupation, profession, or business.

(Bureau of National Affairs Payroll Administration Guide 101-1651)

EMPLOYMENT PROCEDURES

WSU employment includes the following positions:

- Faculty
- Administrative professional
- Graduate assistant
- Civil service
- Positions covered by collective bargaining unit agreements
- Temporary employment
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Faculty

For a faculty position, refer to:

- *BPPM* 58.01 and 58.02 to establish a faculty position.
- *BPPM* 60.11 to fill a faculty position.
- *BPPM* 60.25 to prepare a personnel action for a faculty position.

 Administrative Professional

For an administrative professional (AP) position, refer to:

- *BPPM* 58.01 and 58.02 to establish an AP position.
- *BPPM* 60.17 to fill an AP position.
- *BPPM* 60.25 to prepare a personnel action for an AP position.

Human Resource Services reviews the duties of these positions (see *BPPM* 60.02).

Graduate Assistants

For a graduate assistant position, refer to:

- *BPPM* 58.01 and 58.02 to establish an assistant position.
- *BPPM* 60.25 to prepare a personnel action.

- Graduate Appointment Processing memorandum to fill a graduate assistant position.

Civil Service / Collective Bargaining Unit

For a civil service position or a position covered by a collective bargaining unit agreement, refer to:

- *BPPM* 58.01 and 58.02 to establish a civil service or collective bargaining unit position.
- *BPPM* 60.02 to determine the classification of a civil service or collective bargaining unit position.
- *BPPM* 60.18 to fill a civil service or collective bargaining unit position.
- *BPPM* 60.25 to complete the personnel action for a civil service or collective bargaining unit position.

Temporary Employment

See *BPPM* 60.26 and 60.27 for procedures related to temporary and student employment.

INDEPENDENT CONTRACTOR PROCEDURES

See *BPPM* 70.50.