

Independent Contractors & Your Premium Audit

Who is an Independent Contractor?

An independent contractor can be a sole proprietor, a partner, or a sole owner of a corporation with no employees. All independent contractors should be an established business, work for others and meet the criteria set up by the IRS guidelines for employees vs. independent contractors.

How is an Independent Contractor reviewed for a workers' compensation premium audit?

The role of the Premium Auditor is to determine if an individual is an independent contractor or an employee. By reviewing financial records such as 1099s and cash disbursements journals, the auditor identifies individuals who performed services for an employer. The Premium Auditor will then seek to determine whether or not the individual is an independent contractor.

There are many considerations in determining whether or not an individual is an independent contractor and no one factor is determinative. In addition to a state-specific filed form (for example the DWC-11-IC) and certificate of liability insurance, the IRS guidelines for employees vs. independent contractors provide some key factors to help determine whether or not the individual is an independent contractor. <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee>

Best Practices for preparing for Premium Audit when using Independent Contractors

The distinction between independent contractors and employees is an important one. You may hire an individual to perform a service and you may consider that person to be an independent contractor, but in fact circumstances may indicate the worker meets the criteria of employee.

As an employer, you can help clarify for the auditor that persons engaged in work on your behalf – who are not paid via payroll – are independent by always requesting the following documents from the individual/contractor at the time you engage their services:

- Workers' Compensation insurance certificate(s) effective for the period the contractor worked for you OR
- General Liability certificate(s) effective for the period contractor worked for you AND
- State-specific forms (for example the DWC11-IC filing with Rhode Island's Department of Labor and Training.

Other documents if applicable:

- Copy of Contract Agreement
- Business invoice(s) from the contractor submitted to you

* The DWC11-IC "Notice of Designation of Independent Contractor" form is filed and maintained by the State of Rhode Island's Department of Labor and Training. Additional information and instructions for filing the form on-line can be obtained at the RI Department of Labor and Training's website: dlt.ri.gov/wc/employers/

Note: Despite provision of these documents, Beacon Mutual as well as the state-specific workers' compensation court, may still determine that there is an employer/employee relationship between you and the contractor.

Looking for more information? Call Beacon at 401.825.2667

To reach the Premium Audit Team: Select Option #5, then Option #2 followed by Option #4 Premium Audit



<https://www.beaconmutual.com/employers/premium-audit/>

