

N O R T H W E S T E R N

U N I V E R S I T Y

PROVOST
SENIOR VICE PRESIDENT FOR BUSINESS AND FINANCE

May 10, 1999

To: Deans, Faculty

From: Lawrence B. Dumas, Provost
Eugene S. Sunshine, Senior Vice President for Business and Finance

Re: "Engaging and Paying Individuals, Domestic and Foreign"

Faculty members and departments frequently invite people to speak or to participate in seminars at the University, and engage individuals as consultants to provide services for a variety of programs at Northwestern. Federal requirements necessitate that we update our policies and procedures for paying or reimbursing such persons, whether from non-sponsored or sponsored project accounts. The Internal Revenue Service (IRS) is increasing audit of such payments, and both the University and the individual are subject to substantial financial penalty for failure to comply with Federal regulations.

Before engaging a person the department must determine whether the person should be an employee or independent contractor. The University is reviewing payments to non-employees to determine if the person should be engaged as an employee. The distinction between employee and independent contractor is important for purposes of withholding income taxes, provision of employee benefits, and other legal requirements. The department must also determine if the person is a U.S. citizen/U.S. resident or a non-resident alien. Non-resident aliens are subject to particular tax compliance regulations based on their immigration status.

Effective June 1, 1999, several new steps will be required before payments can be made to non-employees:

- Non-employees who are U.S. Citizens/U.S. Residents must complete a form attesting to their U.S. status. This includes reimbursements for expenses, and honoraria
- Non-employees who are non-resident aliens must be paid through the Payroll Office after completing certain tax and immigration forms. This includes reimbursements for expenses, and honoraria. Federal law requires that, unless a tax treaty exists between the individual's home country and the U.S., substantial deductions for taxes will be made from payments to the individual. Payment through the Payroll office will enable tax withholding based on the treaty status with the individual's home country.

The attestation required from domestic non-employees will not substantially impact payment processing. The procedure for non-resident aliens who are not employees is more significant, and advance planning will be necessary if those payments are to be made in a timely manner. Payment to any individual at the time services are provided will no longer be possible unless documentation has been received sufficiently in advance. When the documentation is completed, payment will be mailed within 5 working days. This is now customary at companies and organizations, and most individuals will understand these requirements.

To facilitate these updated procedures, payment packets are in place which contain the necessary forms and instructions to enable the individual to be to be taxed at the proper rate, and to expedite payment. It is important that those faculty inviting an individual to the University inform their department staff 6-8 weeks prior to the visit to allow adequate time to initiate the appropriate process to engage and pay the individual.

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The attached flowcharts depict the updated procedures. Additional information is available at <http://nuinfo.nwu.edu/finsys/polcydoc/plcymenu.htm> and from your department staff. A training schedule is attached, and faculty are encouraged to attend.

Faculty and department knowledge of these updated policies and procedures is important so that individuals understand clearly the conditions under which Northwestern will pay them. We thank you for your careful consideration of, and your adherence to these guidelines.