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HOUSE FILE No. 1283

FIRST COMMITTEE ENGROSSMENT

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The bill was read for the first time and referred to the Committee on Commerce and Labor

Referred by Chair to Labor and Consumer Protection Division.

March 12, 2007

Returned to the Committee on Commerce and Labor as Amended.

1.1 A bill for an act
1.2 relating to employment; requiring independent contractor exemption certificates;
1.3 providing penalties; authorizing notice to the commissioners of revenue and
1.4 employment and economic development; requiring the commissioner of revenue
1.5 to review certifications of independent contractor status; proposing coding for
1.6 new law in Minnesota Statutes, chapter 181; repealing Minnesota Statutes 2006,
1.7 sections 176.042; 181.722; 268.035, subdivision 9.

1.8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.9 Section 1. **[181.723] DEFINITIONS.**

1.10 Subdivision 1. **Scope.** The definitions in this subdivision apply to this section.

1.11 (a) "Person" means any individual, limited liability corporation, corporation,
1.12 partnership, incorporated or unincorporated association, sole proprietorship, joint stock
1.13 company, or any other legal or commercial entity.

1.14 (b) "Department" means the Department of Labor and Industry.

1.15 (c) "Commissioner" means the commissioner of labor and industry or a duly
1.16 designated representative of the commissioner who is either an employee of the
1.17 Department of Labor and Industry or person working under contract with the Department
1.18 of Labor and Industry.

1.19 (d) "Individual" means a human being.

1.20 (e) "Day" means calendar day unless otherwise provided.

1.21 (f) "Knowingly" means knew or could have known with the exercise of reasonable
1.22 diligence.

1.23 (g) "Document" or "documents" includes papers; books; records; memoranda; data;
1.24 contracts; drawings; graphs; charts; photographs; digital, video, and audio recordings;

2.1 records; accounts; files; statements; letters; e-mails; invoices; bills; notes; and calendars
2.2 maintained in any form or manner.

2.3 Subd. 2. **Limited application.** This section only applies to individuals performing
2.4 public or private sector commercial or residential building construction or improvement
2.5 services.

2.6 Subd. 3. **Employee-employer relationship.** Except as provided in subdivision
2.7 4, for purposes of chapters 176, 177, 181A, 182, and 268, as of January 1, 2009, an
2.8 individual who performs services for a person that are in the course of the person's trade,
2.9 business, profession, or occupation is an employee of that person and that person is an
2.10 employer of the individual.

2.11 Subd. 4. **Independent contractor.** An individual is an independent contractor and
2.12 not an employee of the person for whom the individual is performing services in the course
2.13 of the person's trade, business, profession, or occupation only if (a) the individual holds
2.14 a current independent contractor exemption certificate issued by the commissioner; and
2.15 (b) the individual is performing services for the person under the independent contractor
2.16 exemption certificate as provided in subdivision 6. The requirements in clauses (a) and (b)
2.17 must be met in order to qualify as an independent contractor and not as an employee of
2.18 the person for whom the individual is performing services in the course of the person's
2.19 trade, business, profession, or occupation.

2.20 Subd. 5. **Application.** To obtain an independent contractor exemption certificate,
2.21 the individual must submit, in the manner prescribed by the commissioner, a complete
2.22 application and the certificate fee required under subdivision 14.

2.23 (a) A complete application must include all the following information:

2.24 (1) the individual's full name;

2.25 (2) the individual's residence address and telephone number;

2.26 (3) the individual's business name, address, and telephone number;

2.27 (4) the services for which the individual is seeking an independent contractor
2.28 exemption certificate;

2.29 (5) the individual's Social Security number;

2.30 (6) the individual's or the individual's business federal employer identification
2.31 number, if a number has been issued to the individual or the individual's business;

2.32 (7) any information or documentation that the commissioner requires by rule that
2.33 will assist the department in determining whether to grant or deny the individual's
2.34 application; and

2.35 (8) The individual's sworn statement that the individual meets all of the following
2.36 conditions:

3.1 (i) the individual maintains a separate business with the individual's own office,
3.2 equipment, materials, and other facilities;

3.3 (ii) the individual holds or has applied for a federal employer identification number
3.4 or has filed business or self-employment income tax returns with the federal Internal
3.5 Revenue Service if the person has performed services in the previous year for which the
3.6 individual is seeking the independent contractor exemption certificate;

3.7 (iii) the individual operates under contracts to perform specific services for specific
3.8 amounts of money and under which the individual controls the means of performing the
3.9 services;

3.10 (iv) the individual incurs the main expenses related to the service that the individual
3.11 performs under contract;

3.12 (v) the individual is responsible for the satisfactory completion of services that the
3.13 individual contracts to perform and is liable for a failure to complete the service;

3.14 (vi) the individual receives compensation for service performed under a contract on
3.15 a commission or per-job or competitive bid basis and not on any other basis;

3.16 (vii) the individual may realize a profit or suffer a loss under contracts to perform
3.17 service;

3.18 (viii) the individual has continuing or recurring business liabilities or obligations; and

3.19 (ix) the success or failure of the individual's business depends on the relationship of
3.20 business receipts to expenditures.

3.21 (b) Within 30 days of receiving a complete application and the certificate fee, the
3.22 commissioner must either grant or deny the application. The commissioner may deny
3.23 an application for an independent contractor exemption certificate if the individual has
3.24 not submitted a complete application and certificate fee or if the individual does not
3.25 meet all of the conditions for holding the independent contractor exemption certificate.

3.26 The commissioner may revoke an independent contractor exemption certificate if the
3.27 commissioner determines that the individual no longer meets all of the conditions for
3.28 holding the independent contractor exemption certificate, commits any of the actions
3.29 set out in subdivision 7, or fails to cooperate with a department investigation into the
3.30 continued validity of the individual's certificate. Once issued, an independent contractor
3.31 exemption certificate remains in effect for two years unless:

3.32 (1) revoked by the commissioner; or

3.33 (2) canceled by the individual.

3.34 (c) If the department denies an individual's original or renewal application for
3.35 an independent contractor exemption certificate or revokes an independent contractor
3.36 exemption certificate, the commissioner shall issue to the individual an order denying or

4.1 revoking the certificate. The commissioner may issue an administrative penalty order to
4.2 an individual or person who commits any of the actions set out in subdivision 7.

4.3 (d) An individual or person to whom the commissioner issues an order under
4.4 paragraph (c) shall have 30 days after service of the order to request a hearing. The request
4.5 for hearing must be in writing and must be served on or faxed to the commissioner at the
4.6 address or fax number specified in the order by the 30th day after service of the order.
4.7 If the individual does not request a hearing or if the individual's request for a hearing is
4.8 not served on or faxed to the commissioner by the 30th day after service of the order, the
4.9 order shall become a final order of the commissioner and will not be subject to review
4.10 by any court or agency. The date on which a request for hearing is served by mail shall
4.11 be the postmark date on the envelope in which the request for hearing is mailed. If the
4.12 individual serves or faxes a timely request for hearing, the hearing shall be a contested
4.13 case hearing and shall be held in accordance with chapter 14.

4.14 Subd. 6. **Qualifications for exemption certificate.** An individual is performing
4.15 services for a person under an independent contractor exemption certificate if:

4.16 (a) the individual is performing services listed on the individual's independent
4.17 contractor exemption certificate;

4.18 (b) at the time the individual is performing services listed on the individual's
4.19 independent contractor exemption certificate, the individual meets all the following
4.20 conditions:

4.21 (1) the individual maintains a separate business with the individual's own office,
4.22 equipment, materials, and other facilities;

4.23 (2) the individual holds or has applied for a federal employer identification number
4.24 or has filed business or self-employment income tax returns with the federal Internal
4.25 Revenue Service if the individual performed services in the previous year for which the
4.26 individual has the independent contractor exemption certificate;

4.27 (3) the individual is operating under contract to perform the specific services for
4.28 the person for specific amounts of money and under which the individual controls the
4.29 means of performing the services;

4.30 (4) the individual is incurring the main expenses related to the services that the
4.31 individual is performing for the person under the contract;

4.32 (5) the individual is responsible for the satisfactory completion of the services
4.33 that the individual has contracted to perform for the person and is liable for a failure
4.34 to complete the services;

5.1 (6) the individual receives compensation from the person for the services performed
5.2 under the contract on a commission or per-job or competitive bid basis and not on any
5.3 other basis;

5.4 (7) the individual may realize a profit or suffers a loss under the contract to perform
5.5 services for the person;

5.6 (8) the individual has continuing or recurring business liabilities or obligations; and

5.7 (9) the success or failure of the individual's business depends on the relationship of
5.8 business receipts to expenditures.

5.9 **Subd. 7. Prohibited activities.** (a) An individual shall not:

5.10 (1) perform work as an independent contractor without first obtaining from the
5.11 department an independent contractor exemption certificate;

5.12 (2) perform work as an independent contractor when the department has denied or
5.13 revoked the individual's independent contractor exemption certificate;

5.14 (3) transfer to another individual or allow another individual to use the individual's
5.15 independent contractor exemption certificate;

5.16 (4) alter or falsify an independent contractor exemption certificate;

5.17 (5) misrepresent the individual's status as an independent contractor; or

5.18 (6) make a false material statement, representation, or certification; omit material
5.19 information; or alter, conceal, or fail to file a document required by this section or any rule
5.20 promulgated by the commissioner under rulemaking authority set out in this section.

5.21 (b) A person for whom an individual is performing services shall not:

5.22 (1) require an individual through coercion, misrepresentation, or fraudulent means to
5.23 adopt independent contractor status;

5.24 (2) knowingly misrepresent that an individual who has not been issued an
5.25 independent contractor exemption certificate or is not performing services for the person
5.26 under an independent contractor exemption certificate is an independent contractor; or

5.27 (3) make a false material statement, representation, or certification; omit material
5.28 information; or alter, conceal, or fail to file a document required by this section or any rule
5.29 promulgated by the commissioner under rulemaking authority set out in this section.

5.30 (c) A person for whom an individual is performing services must obtain a copy of the
5.31 individual's independent contractor exemption certificate before services may commence.

5.32 A copy of the independent contractor exemption certificate must be retained for five years
5.33 from the date of receipt by the person for whom an individual is performing services.

5.34 **Subd. 8. Remedies.** (a) An individual or person who violates any provision of
5.35 subdivision 7 is subject to a penalty to be assessed by the department of up to \$1,000 for
5.36 each violation. The department shall deposit penalties in the assigned risk safety account.

6.1 (b) An individual who has been injured by a violation of subdivision 7, paragraph
6.2 (b), may bring a civil action for damages against the violator. If the individual is
6.3 determined to be an employee or an independent contractor considered an employee of
6.4 the violator of subdivision 7, paragraph (b), the employee's representative as defined in
6.5 section 179.01, subdivision 5, may bring a civil action for damages against the violator
6.6 on behalf of the employee. In addition to damages the court may award attorney fees,
6.7 costs, and disbursements to a recovery under this provision.

6.8 (c) Any court finding that a violation of subdivision 7 has occurred shall
6.9 transmit a copy of its findings of fact and conclusion of law to the commissioner. The
6.10 commissioner shall report the findings to the relevant state and federal agencies, including
6.11 the commissioner of commerce, the commissioner of employment and economic
6.12 development, the commissioner of revenue, the federal Internal Revenue Service, and the
6.13 United States Department of Labor.

6.14 Subd. 9. **Commissioner's powers.** (a) In order to carry out the purposes of this
6.15 section, the commissioner may:

6.16 (1) administer oaths and affirmations, certify official acts, interview, question, take
6.17 oral or written statements, and take depositions;

6.18 (2) request, examine, take possession of, photograph, record, and copy any
6.19 documents, equipment, or materials;

6.20 (3) at a time and place indicated by the commissioner, request persons to appear
6.21 before the commissioner to give testimony and produce documents, equipment, or
6.22 materials;

6.23 (4) issue subpoenas to compel persons to appear before the commissioner to give
6.24 testimony and produce documents, equipment, or materials; and

6.25 (5) with or without notice, enter without delay upon any property, public or private,
6.26 for the purpose of taking any action authorized under this subdivision or the applicable
6.27 law, including obtaining information or conducting inspections or investigations.

6.28 (b) Persons requested by the commissioner to give testimony or produce documents,
6.29 equipment, or materials shall respond within the time and in the manner specified by the
6.30 commissioner. If no time to respond is specified in the request, then a response shall be
6.31 submitted within 30 days of the commissioner's service of the request.

6.32 (c) Upon the refusal or anticipated refusal of a property owner, lessee, property
6.33 owner's representative, or lessee's representative to permit the commissioner's entry onto
6.34 property as provided in paragraph (a), the commissioner may apply for an administrative
6.35 inspection order in the Ramsey County District Court or, at the commissioner's discretion,
6.36 in the district court in the county in which the property is located. The commissioner may

7.1 anticipate that a property owner or lessee will refuse entry if the property owner, lessee,
7.2 property owner's representative, or lessee's representative has refused to permit entry on a
7.3 prior occasion or has informed the commissioner that entry will be refused. Upon showing
7.4 of administrative probable cause by the commissioner, the district court shall issue an
7.5 administrative inspection order that compels the property owner or lessee to permit the
7.6 commissioner to enter the property for the purposes specified in paragraph (a).

7.7 (d) Upon the application of the commissioner, a district court shall treat the failure of
7.8 any person to obey a subpoena lawfully issued by the commissioner under this subdivision
7.9 as a contempt of court.

7.10 Subd. 10. **Notice requirements.** Unless otherwise specified, service of a document
7.11 on a person under this section or section 326B.083 may be by mail, by personal service,
7.12 or in accordance with any consent to service filed with the commissioner. Service by
7.13 mail shall be accomplished in the manner provided in Minnesota Rules, part 1400.5550,
7.14 subpart 2. Personal service shall be accomplished in the manner provided in Minnesota
7.15 Rules, part 1400.5550, subpart 3.

7.16 Subd. 11. **Facsimile; timely service.** When this section or section 326B.083
7.17 permits a request for reconsideration or request for hearing to be served by facsimile on
7.18 the commissioner, the facsimile shall not exceed 15 pages in length. The request shall be
7.19 considered timely served if the facsimile is received by the commissioner, at the facsimile
7.20 number identified by the commissioner in the order or notice of violation, no later than
7.21 4:30 p.m. central time on the last day permitted for faxing the request. Where the quality
7.22 or authenticity of the faxed request is at issue, the commissioner may require the original
7.23 request to be filed. Where the commissioner has not identified quality or authenticity
7.24 of the faxed request as an issue and the request has been faxed in accordance with this
7.25 subdivision, the person faxing the request does not need to file the original request with
7.26 the commissioner.

7.27 Subd. 12. **Time period computation.** In computing any period of time prescribed
7.28 or allowed by this section, the day of the act, event, or default from which the designated
7.29 period of time begins to run shall not be included. The last day of the period so computed
7.30 shall be included, unless it is a Saturday, Sunday, or legal holiday, in which event the
7.31 period runs until the next day which is not a Saturday, Sunday, or legal holiday.

7.32 Subd. 13. **Rulemaking.** The commissioner may, in consultation with the
7.33 commissioner of revenue and the commissioner of employment and economic
7.34 development, adopt, amend, suspend, and repeal rules under the rulemaking provisions
7.35 of chapter 14 that relate to the commissioner's responsibilities under this section. This
7.36 subdivision is effective the day following final enactment.

8.1 Subd. 14. **Fee.** The certificate fee for the original application and for the renewal
8.2 of an independent contractor exemption certificate shall be \$150. The certificate fee is
8.3 appropriated to the commissioner for payment of the costs related to administering and
8.4 enforcing this section.

8.5 Subd. 15. **Notice to commissioner; review by commissioner of revenue.** When
8.6 the commissioner has reason to believe that an individual who holds a certificate has failed
8.7 to maintain all the conditions required by subdivision 3 or is not performing services for a
8.8 person under the independent contractor exemption certificate, the commissioner must
8.9 notify the commissioner of revenue and the commissioner of employment and economic
8.10 development. Upon receipt of notification from the commissioner that an individual who
8.11 holds a certificate has failed to maintain all the conditions required by subdivision 3
8.12 or is not performing services for a person under the independent contractor exemption
8.13 certificate, the commissioner of revenue must review the information returns required
8.14 under section 6041A of the Internal Revenue Code. The commissioner of revenue shall
8.15 also review the submitted certification that is applicable to returns audited or investigated
8.16 under section 289A.35.

8.17 Subd. 16. **Data classified.** Certifications issued by the commissioner are public data.
8.18 Applications and required documentation submitted by individuals is private data on an
8.19 individual. Upon request of the Department of Revenue or the Department of Employment
8.20 and Economic Development, the commissioner may release to the Department of
8.21 Revenue and the Department of Employment and Economic Development applications
8.22 and required documentation submitted by individuals and investigative data that relates
8.23 to the department's issuance or denial of applications and the department's revocations
8.24 of certificates. Except as otherwise provided by this subdivision, the department's
8.25 investigative data shall be classified as provided in chapter 13.

8.26 **EFFECTIVE DATE.** This section is effective July 1, 2008.

8.27 Sec. 2. **REPEALER.**

8.28 Minnesota Statutes 2006, sections 176.042; 181.722; and 268.035, subdivision
8.29 9, are repealed.

8.30 **EFFECTIVE DATE.** This section is effective January 1, 2009.