Independent Contractors

In FY23 employers reported over 71 million new and rehired employees and collected 73% of child support by income withholding.

Child support agencies (CSAs) rely on new hire reporting to issue Income Withholding for Support (IWO) orders to employers and companies using independent contractors (ICs). An IWO can be issued to any source of recurring income. However, since not all states require companies to submit independent contractors with their new hire reports, CSAs do not always receive notification that an individual who owes support is an independent contractor. As a result, support is often not collected from those individuals.

A collaboration of employers and state child support directors, drafted a model state law This model law can increase child support collections for families and streamline employer compliance with new hire reporting requirements that are more similar from state to state.

IC Reporting and Withholding Challenges

- Identifying the individual who owes support as an IC
- IC pay frequency may not be the same as employees
- CCPA withholding limits do not apply
- Determining action required for Medical Support requirements

Employer - Focused Challenges

- Lack of standardization for reporting
- IC management and pay is handled through accounts payable, not payroll
- May miss reporting IC as a new hire
- Duty to gather and report IC information varies by state
- Payroll will receive IWO for IC and believe the IWO was erroneously issued

CSA - Focused Challenges

- Addressing increase of ICs in current economy
- Automated systems are not programmed for IC requirements
- States can have difficulty differentiating between employees and ICs
- Current version of IWO form does not differentiate between employee and IC

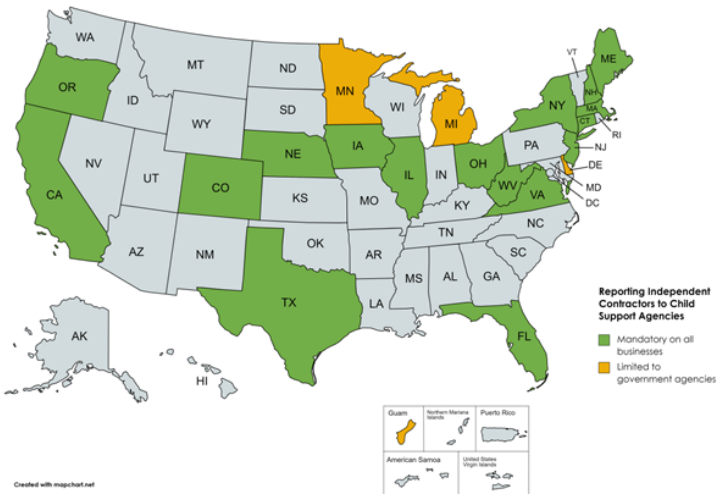
Model Legislation for Independent Contractor Reporting (Model Act) Developed by National Council of Child Support Directors (NCCSD) Employer Collaboration Committee

The model act is designed to build on the success of federal and state new hire reporting and income withholding laws.

Model Act Benefits

- Establishes uniformity by standardizing IC reporting and withholding
- Increases collections for families
- Promotes effective IC reporting

Model Act Highlights

- Establishes criteria for reporting including timeframes and thresholds
- Defines Service Provider to align with existing 9 data collection requirements

Independent Contractor Reporting Mandates