

SENATE BILL NO. 22

INTRODUCED BY S. MORIGEAU

BY REQUEST OF THE ECONOMIC AFFAIRS INTERIM COMMITTEE

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING INDEPENDENT CONTRACTOR LAWS; PROVIDING DEPARTMENT ANALYSIS RELATING TO THE EMPLOYMENT STATUS OF A PERSON; REVISING LAWS RELATED TO INDEPENDENT CONTRACTOR EXEMPTION CERTIFICATES; REQUIRING DEPARTMENT ANALYSIS IN CERTAIN CIRCUMSTANCES; AND AMENDING SECTIONS 39-51-203, 39-71-417, AND SECTION 39-71-419, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

~~NEW SECTION. Section 1. — Independent contractor analysis. (1) The employment status of a person is determined by subsection (2) if the person does not have an independent contractor exemption certificate and:~~

~~(a) — the person represents to a hiring agent that they have an independent contractor exemption certificate;~~

~~(b) — the person applied for an independent contractor exemption certificate prior to the event triggering a department investigation;~~

~~(c) — the person provided the hiring agent a forged independent contractor exemption certificate;~~

~~(d) — the hiring agent contacted the department and was informed the person was an independent contractor;~~

~~(e) — the person's independent contractor exemption certificate expires during the working relationship; or~~

~~(f) — the person induced the hiring agent to commence the working relationship based on the worker's status as an independent contractor.~~

~~(2) — The department shall investigate whether, as to the particular hiring agent:~~

~~(a) — the person was free from direction and control in the performance of services; and~~

1 (b) ~~the person was engaged in an independently established trade, occupation, profession, or~~
2 ~~business.~~

3 (3) ~~A person found to meet the requirements of subsection (2) is an independent contractor.~~

4

5 **Section 2.** Section 39-51-203, MCA, is amended to read:

6 ~~**"39-51-203. Employment defined.** (1) "Employment", subject to other provisions of this section,~~
7 ~~means service by an individual, by a manager or member of a limited liability company treated as a corporation~~
8 ~~pursuant to 39-51-207, or by an officer of a corporation, including service in interstate commerce, performed for~~
9 ~~wages or under any contract of hire, written or oral, express or implied.~~

10 (2) ~~(a) The term "employment" includes an individual's entire service performed within or both~~
11 ~~within and outside this state if:~~

12 (i) ~~the service is localized in this state; or~~

13 (ii) ~~the service is not localized in any state but some of the service is performed in this state and:~~

14 (A) ~~the base of operations or, if there is no base of operations, the place from which the service is~~
15 ~~directed or controlled is in this state; or~~

16 (B) ~~the base of operations or the place from which the service is directed or controlled is not in any~~
17 ~~state in which some part of the service is performed, but the individual's residence is in this state.~~

18 (b) ~~Service is considered to be localized within a state if:~~

19 (i) ~~the service is performed entirely within the state; or~~

20 (ii) ~~the service is performed both within and outside the state, but the service performed outside~~
21 ~~the state is incidental to the individual's service within the state; for example, the out-of-state service is~~
22 ~~temporary or transitory in nature or consists of isolated transactions.~~

23 (3) ~~Service not covered under subsection (2) and performed entirely outside the state and on~~
24 ~~which contributions are neither required nor paid under an unemployment insurance law of any other state or of~~
25 ~~the federal government is considered to be employment subject to this chapter if the individual performing the~~
26 ~~services is a resident of this state and the department approves the election of the employing unit for whom the~~
27 ~~services are performed in order that the entire service of the individual is considered to be employment subject~~
28 ~~to this chapter.~~

1 ~~(4) — Service performed by an individual for wages is considered to be employment subject to this~~
 2 ~~chapter until it is shown to the satisfaction of the department that the individual is an independent contractor. An~~
 3 ~~individual may not be determined to be an employee based solely on not having an independent contractor~~
 4 ~~exemption certificate.~~

5 ~~(5) — The term "employment" includes service performed by an individual in the employ of this state~~
 6 ~~or any of its instrumentalities (or in the employ of this state and one or more other states or their~~
 7 ~~instrumentalities) for a hospital or institution of higher education located in this state. The term "employment"~~
 8 ~~includes service performed by all individuals, including those individuals who work for the state of Montana, its~~
 9 ~~universities, public schools, components or units of universities or public schools, or any local government unit~~
 10 ~~and one or more other states or their instrumentalities or political subdivisions whose services are compensated~~
 11 ~~by salary or wages.~~

12 ~~(6) — The term "employment" includes service performed by an individual in the employ of a~~
 13 ~~religious, charitable, scientific, literary, or educational organization.~~

14 ~~(7) — (a) The term "employment" includes the service of an individual who is a citizen of the United~~
 15 ~~States performed outside the United States, except in Canada, in the employ of an American employer, other~~
 16 ~~than service that is considered employment under the provisions of subsection (2) or the parallel provisions of~~
 17 ~~another state's law, if:~~

18 ~~(i) — the employer's principal place of business in the United States is located in this state;~~

19 ~~(ii) — the employer has no place of business in the United States, but:~~

20 ~~(A) — the employer is an individual who is a resident of this state;~~

21 ~~(B) — the employer is a corporation that is organized under the laws of this state; or~~

22 ~~(C) — the employer is a partnership or a trust and the number of the partners or trustees who are~~
 23 ~~residents of this state is greater than the number who are residents of any other state; or~~

24 ~~(iii) — none of the criteria of subsections (7)(a)(i) and (7)(a)(ii) are met, but the employer has elected~~
 25 ~~coverage in this state or, the employer having failed to elect coverage in any state, the individual has filed a~~
 26 ~~claim for benefits based on the service under the law of this state.~~

27 ~~(b) — An "American employer", for purposes of this subsection (7), means a person who is:~~

28 ~~(i) — an individual who is a resident of the United States;~~

1 ~~(ii) a partnership if two-thirds or more of the partners are residents of the United States;~~

2 ~~(iii) a trust if all of the trustees are residents of the United States; or~~

3 ~~(iv) a corporation organized under the laws of the United States or of any state."~~

4

5 **Section 1.** Section 39-71-417, MCA, is amended to read:

6 **"39-71-417. Independent contractor certification.** (1) (a) (i) Except as provided in subsection

7 (1)(a)(ii), a person who regularly and customarily performs services at a location other than the person's own

8 fixed business location shall apply to the department for an independent contractor exemption certificate unless

9 the person has elected to be bound personally and individually by the provisions of compensation plan No. 1, 2,

10 or 3.

11 (ii) An officer or manager who is exempt under 39-71-401(2)(r)(iii) or (2)(r)(iv) may apply, but is not
12 required to apply, to the department for an independent contractor exemption certificate.

13 (b) A person who meets the requirements of this section and receives an independent contractor
14 exemption certificate is not required to obtain a personal workers' compensation insurance policy.

15 (c) For the purposes of this section, "person" means:

16 (i) a sole proprietor;

17 (ii) a working member of a partnership;

18 (iii) a working member of a limited liability partnership;

19 (iv) a working member of a member-managed limited liability company; or

20 (v) a manager of a manager-managed limited liability company that is engaged in the work of the
21 construction industry as defined in 39-71-116.

22 (2) The department shall adopt rules relating to an original application for or renewal of an
23 independent contractor exemption certificate. The department shall adopt by rule the amount of the fee for an
24 application or certificate renewal. The application or renewal must be accompanied by the fee.

25 (3) The department shall deposit the application or renewal fee in an account in the state special
26 revenue fund to pay the costs of administering the program.

27 (4) (a) To obtain an independent contractor exemption certificate, the applicant shall swear to and
28 acknowledge the following:

1 (i) that the applicant has been and will continue to be free from control or direction over the
2 performance of the person's own services, both under contract and in fact; and

3 (ii) that the applicant is engaged in an independently established trade, occupation, profession, or
4 business and will provide sufficient documentation of that fact to the department.

5 (b) For the purposes of subsection (4)(a)(i), an endorsement required for licensure, as provided in
6 37-47-303, does not imply or constitute control.

7 (5) (a) An applicant for an independent contractor exemption certificate shall submit an application
8 under oath on a form prescribed by the department and containing the following:

9 (i) the applicant's name and address;

10 (ii) the applicant's social security number;

11 (iii) each occupation for which the applicant is seeking independent contractor certification; and

12 (iv) other documentation as provided by department rule to assist in determining if the applicant
13 has an independently established business.

14 (b) The department shall adopt a retention schedule that maintains copies of documents submitted
15 in support of an initial application or renewal application for an independent contractor exemption certificate for
16 a minimum of 3 years after an application has been received by the department. The department shall, to the
17 extent feasible, produce renewal applications that reduce the burden on renewal applicants to supply
18 information that has been previously provided to the department as part of the application process.

19 (c) An applicant who applies on or after July 1, 2011, to renew an independent contractor
20 exemption certificate is not required to submit documents that have been previously submitted to the
21 department if:

22 (i) the applicant certifies under oath that the previously submitted documents are still valid and
23 current; and

24 (ii) the department, if it considers it necessary, independently verifies a specific document or
25 decides that a document has not expired pursuant to the document's own terms and is therefore still valid and
26 current.

27 (6) The department shall issue an independent contractor exemption certificate to an applicant if
28 the department determines that an applicant meets the requirements of this section.

1 (7) (a) When the department approves an application for an independent contractor exemption
 2 certificate and the person is working under the independent contractor exemption certificate, the person's status
 3 is conclusively presumed to be that of an independent contractor. ~~Except as provided in [section 1], a person~~
 4 ~~who does not have an independent contractor exemption certificate but is required to have one is conclusively~~
 5 ~~presumed to be an employee.~~

6 (b) A person working under an approved independent contractor exemption certificate has waived
 7 all rights and benefits under the Workers' Compensation Act and is precluded from obtaining benefits unless
 8 the person has elected to be bound personally and individually by the provisions of compensation plan No. 1, 2,
 9 or 3.

10 (c) For the purposes of the Workers' Compensation Act, a person is working under an independent
 11 contractor exemption certificate if:

12 (i) the person is performing work in the trade, business, occupation, or profession listed on the
 13 person's independent contractor exemption certificate; and

14 (ii) the hiring agent and the person holding the independent contractor exemption certificate do not
 15 have a written or an oral agreement that the independent contractor exemption certificate holder's status with
 16 respect to that hiring agent is that of an employee.

17 (D) A PERSON WITHOUT AN INDEPENDENT CONTRACTOR EXEMPTION CERTIFICATE IS REBUTTABLY
 18 PRESUMED TO BE AN INDEPENDENT CONTRACTOR WHEN:

19 (I) THE PERSON REPRESENTS TO A HIRING ENTITY OR INDIVIDUAL IN WRITING THAT THE PERSON HAS AN
 20 INDEPENDENT CONTRACTOR EXEMPTION CERTIFICATE;

21 (II) THE PERSON PROVIDES THE HIRING ENTITY OR INDIVIDUAL A FORGED OR OTHERWISE FRAUDULENT
 22 INDEPENDENT CONTRACTOR EXEMPTION CERTIFICATE; OR

23 (III) THE PERSON'S INDEPENDENT CONTRACTOR EXEMPTION CERTIFICATE EXPIRES WHILE THE PERSON IS
 24 WORKING UNDER THE CONTRACT AND PRIOR TO FULL PERFORMANCE OF THE CONTRACT, FOR A PERIOD NOT TO EXCEED
 25 120 DAYS FOLLOWING THE EXPIRATION OF THE CERTIFICATE.

26 (E) THE DEPARTMENT SHALL UTILIZE THE CONSIDERATIONS SET FORTH IN SUBSECTIONS (4)(A)(I) AND
 27 (4)(A)(II) FOR ANY EVALUATION CONDUCTED UNDER SUBSECTION (7)(D).

28 (8) Once issued, an independent contractor exemption certificate remains in effect for 2 years

1 unless:

2 (a) suspended or revoked pursuant to 39-71-418; or

3 (b) canceled by the independent contractor.

4 (9) If the department's independent contractor central unit denies an application for an
5 independent contractor exemption certificate, the applicant may contest that decision as provided in 39-71-
6 415(2)."

7

8 **Section 4.** Section 39-71-419, MCA, is amended to read:

9 ~~"39-71-419. Independent contractor violations -- penalty. (1) A person may not:~~

10 (a) ~~perform work as an independent contractor without first:~~

11 (i) ~~obtaining from the department an independent contractor exemption certificate unless the~~
12 ~~individual is not required to obtain an independent contractor exemption certificate pursuant to 39-71-417(1)(a);~~

13 ~~or~~

14 (ii) ~~electing to be bound personally and individually by the provisions of compensation plan No. 1,~~
15 ~~2, or 3;~~

16 (b) ~~perform work as an independent contractor when the department has revoked or denied the~~
17 ~~independent contractor's exemption certificate;~~

18 (c) ~~transfer to another person or allow another person to use an independent contractor exemption~~
19 ~~certificate that was not issued to that person;~~

20 (d) ~~alter or falsify an independent contractor exemption certificate; or~~

21 (e) ~~misrepresent the person's status as an independent contractor. A person who falsely claimed,~~
22 ~~either in writing or through credible evidence, to have an independent contractor certification may not be~~
23 ~~considered to be an employee solely based on not actually having an independent contractor exemption~~
24 ~~certificate. The burden of proof that an independent contractor is certified rests with the independent contractor~~
25 ~~and not the hiring entity.~~

26 (2) ~~An employer may not:~~

27 (a) ~~require an employee through coercion, misrepresentation, or fraudulent means to adopt~~
28 ~~independent contractor status to avoid the employer's obligations to provide workers' compensation coverage;~~

1 or

2 (b) ~~exert control to a degree that causes the independent contractor to violate the provisions of 39-~~
3 ~~71-417(4).~~

4 (3) ~~In addition to any other penalty or sanction provided in this chapter, a person or employer who~~
5 ~~violates a provision of this section is subject to a fine to be assessed by the department of up to \$1,000 for each~~
6 ~~violation. The department shall deposit the fines in the uninsured employers' fund. The lien provisions of 39-71-~~
7 ~~506 apply to any assessed fines.~~

8 (4) ~~A person or employer who disputes a fine assessed by the department pursuant to this section~~
9 ~~may file an appeal with the department within 30 days of the date on which the fine was assessed. If, after~~
10 ~~mediation, the issue is not resolved, the issue must be transferred to the workers' compensation court for~~
11 ~~resolution."~~

12
13 NEW SECTION. Section 5. — Codification instruction. [Section 1] is intended to be codified as an
14 integral part of Title 39, chapter 71, part 4, and the provisions of Title 39, chapter 71, part 4, apply to [section 1].

15 - END -