Hello. You’ve reached the IRS help line. Press 1 if you’ve been negligent and need more time to procrastinate. Press 2 if you’re not very good at math and hope that we aren’t either. Press 3 if you’d like to talk to someone about deducting your slot machine losses; we get a kick out of those. Press 4...
Agenda

• Spouse/family travel and other benefits
• Awards, prizes and employee recognition
• Student payments
• Independent contractor vs. employee
• International employee and student payments
• Unrelated business income (UBI)
• Q&A
**Spouse/Family Travel & Other Benefits**

*Everything* provided to an employee is taxable unless there’s an exception, such as.....

<table>
<thead>
<tr>
<th>Bona fide business purpose; working condition fringe</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Spouse travel expenses when business purposes is supportable</td>
<td></td>
</tr>
<tr>
<td>• Employee use of tickets to events when accompanied by a donor or business partner</td>
<td></td>
</tr>
<tr>
<td>• Working lunches with employees or contractors</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No additional cost service</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tickets not sold for an event and provided at the last minute for employees, spouses &amp; dependents</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>De minimis fringe – infrequent and administratively impractical to track</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee picnics, holiday parties</td>
<td></td>
</tr>
<tr>
<td>• Occasional group meals or celebrations</td>
<td></td>
</tr>
<tr>
<td>• Employee meals at an eating facility operated by the University located on campus if the revenue at least covers cost</td>
<td></td>
</tr>
</tbody>
</table>
Spouse/Family Travel & Other Benefits

Examples of benefits that are generally taxable are:

• Spouse or dependent travel (e.g. airfare, meals) where a business purpose for the spouse or dependent isn’t substantiated to IRS standards.

• Tickets provided far in advance of the event on a regular basis.

• Employee meals provided more than infrequently where no business is conducted, and the employee meal does not meet the “convenience of the employer” exception.

• Travel advances where documentation is not timely provided or excess funds are not timely returned.

• Travel where the personal portion outweigh the business portion.

• Personal use of employer provided vehicles where mileage records of business use are not adequately maintained.
**Awards, Prizes and Employee Recognition**

*Everything* provided to an employee is taxable unless there’s an exception.

<table>
<thead>
<tr>
<th>Scholarship or fellowship</th>
<th>Prize or award</th>
<th>Employee recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>• W-2 required for services to UI</td>
<td>• Generally taxable and reportable on 1099</td>
<td>• Generally taxable on W-2</td>
</tr>
<tr>
<td>• No W-2 or 1099 is required if UI is receiving no services</td>
<td>• Tax exempt if designated for qualified tuition, fees, books, supplies; not reported on Form 1099 = scholarship</td>
<td>• Nontaxable if it meets the length of service or safety achievement award rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Nontaxable if it qualifies as a de minimis benefit</td>
</tr>
</tbody>
</table>
Student Payments
Perception vs. Reality

Perception

Student Accounts:
- Administratively cumbersome
- Dept. of Ed rules are complex
- Financial Aid / Accounting functions lack synergy

Payroll = “Bad”:
- Could cost departments money for taxes.
- Taxes may not be covered by grants
- May subject student to withholding

Accounts Payable:
- Administratively easy
- Student gets full amount of their payment
- Doesn’t cost the University anything
Perception vs. Reality

Reality

Student Accounts:
• Most payments are intended to help students with educational costs
• 1098-T does not trigger an income match for IRS

Payroll:
• If students are providing services for the benefit of the University, then this is the appropriate payment vehicle to use

Accounts Payable = Risk:
• May result in audits for the University and students
• 1099 results in students paying self employment tax; no withholding to pre-pay income tax
Which Payment Vehicle to Use?

**Student Accounts**
- Paid thru Financial Aid
- Lowest risk to University and student
- Most favorable tax outcome

**Payroll**
- For student employment
- Low risk to University and student
- Payroll & income taxes withheld

**Accounts Payable**
- Hardly ever appropriate
- High risk to University and Student
- Student pays all payroll & income taxes

**1098-T**

**W-2**

**1099**
What is a Scholarship?

IRS definition - Any amount paid for the benefit of an individual to assist in the pursuit of study or research.

Does NOT apply to any portion of the payment which is for teaching, research, or other services required as a condition of receiving the scholarship.

Reporting:
- Offset qualified expenses = Form 1098-T
- Offset nonqualified expenses = no reporting required *

Vehicle: **no services required** = process through Financial Aid / Student Accounts
What is a Scholarship?

Example:
Student is awarded an internship for an educational stipend of $5,000. Student is to work 200 hours over the summer as a condition of the internship under the supervision of a University employee. A reasonable rate per hour for the duties to be performed is $15 per hour.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total grant</td>
<td>$5,000</td>
</tr>
<tr>
<td>Less: payment for services</td>
<td>(3,000)</td>
</tr>
<tr>
<td>W-2 for 200 hr x $15</td>
<td></td>
</tr>
<tr>
<td>Potential scholarship</td>
<td>2,000</td>
</tr>
</tbody>
</table>

1) Credit to Student Account = no reporting
2) Process through A/P = 1099
Payments Processed through Payroll

All compensatory payments:
- Internships with an hour requirement for services to UI
- Internships where the grantor is expecting UI to fulfill the withholding and reporting requirements
- Research performed where the primary beneficiary is UI

This should be considered as part of grant agreements and internship arrangements.

Reporting = Form W-2
- Payroll taxes are paid by the University and withheld from the student
- Income taxes are withheld from the student
Payments Processed through Accounts Payable

All other payments:
- Payments to independent contractors for services
- Prize or awards for competitions that are not qualified scholarships, no future services are required

Reasons NOT to process student payments through A/P:
- Students are generally not vendors
- Most A/P payments = 1099 reporting
  - No withholding for the student to pre-pay the income tax
  - Student is subject to all of the payroll taxes, due with their return
- Suppressing 1099 reporting is easy to miss and increases administrative burden for A/P
Independent Contractor vs. Employee

Direct evidence of the right to control

Method of payment

Furnishing of major items of equipment

Right to terminate relationship without liability

www.iic.idaho.gov/publications/ec_ic_vs_employee.pdf
Independent Contractor vs. Employee

- Behavioral
- Financial
- Type of Relationship

## International Issues

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. citizen or U.S. national</td>
<td>Individuals born in the U.S., parent is a U.S. citizen, or is a naturalized citizen</td>
</tr>
</tbody>
</table>
| Resident alien                | 1) A green card holder or  
                                | 2) Meets the substantial presence test  
                                | Treated as a U.S. citizen for tax withholding and reporting purposes |
| Nonresident alien             | Generally here on a F, J, M or Q visa and does not meet the substantial presence test.  
                                | Special reporting and withholding rules apply |
| Undocumented / illegal alien  | Treated as a nonresident alien                                             |
International Employee & Student Payments

Forget everything we just talked about….nonresident aliens are different:

1. Wages are generally reported on Form 1042-S, NOT Form W-2.

2. Everything other than a qualified scholarship is reported on Form 1042-S.

3. Wages and payments other than qualified scholarships are subject to special withholding rules based on the type of payment and treaty benefits:
   1. DEFAULT WITHHOLDING RATE IS 30%
   2. 14% RATE FOR TAXABLE SCHOLARSHIPS AND PAYMENTS RELATING TO TRAVEL OR ROOM AND BOARD

4. Forms needed to qualify for reduced withholding or treaty benefits are W-8BEN or Form 8233. UI requires students to complete online immigration information (FNIS), in lieu of completing the above forms. The required forms are generated by the software based on answers provided by the student.

5. Nonresident students not studying in the US are not subject to withholding or reporting; foreign-sourced scholarships are not subject to US withholding or reporting.
Trade or business

Regularly carried on

Unrelated to exempt purpose
Trade or business

1. Profit motive
2. Loss activity that has evidence of a profit motive

- History of NOLs?
- Changes in manner of conducting the activity?
- Hobby loss rules
- Net position before depreciation & charitable contribution deduction
Regularly carried on

- Frequency & continuity = not sporadic or infrequent
- Similar to commercial enterprises
- Does not contribute importantly to the exempt purpose
- No substantial causal relationship to the achievement of the exempt purpose
- Size and extent of the activities; exploitation of exempt activities
- Dual use property
Trade or business

Regularly carried on

Unrelated to exempt purpose

UBI
Key Exceptions & Exclusions

Real Property
Personal Property
Services

Interest
Dividends
Royalties
Gain on sales
Key Exceptions & Exclusions

Real Property
Personal Property
Services

Caution if there’s debt involved in the acquisition or improvement of the property

Interest
Dividends
Royalties
Gain on sales
Key Exceptions & Exclusions
Key Exceptions & Exclusions

Sponsorships

Public entertainment activities & trade shows

Convenience exception
A Gentle Reminder from the All New, Friendly I.R.S.

Questions?
# UI Contacts

## Questions about....

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<td>- Controller</td>
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<td>• Independent contractor vs. employee</td>
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<td>• International employee payments</td>
<td>- Human Resources</td>
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<tr>
<td>• Unrelated business income (UBI)</td>
<td>- Contracts &amp; Purchasing</td>
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<td>- General Accounting</td>
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