

University of Utah
Tax Overview

Presented by:
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Tax Services &
Payroll Accounting
Mission Statement:

- Provide the University with excellent customer service with respect to tax services and payroll accounting including compliance, tax research, strategy, planning and accounting.

What we do:
Tax Services

- Ensure timely filing of all University federal and state tax related returns, reports and payments.
- Develop necessary procedures and reporting systems to ensure compliance with federal and state tax laws applicable to the University.
- Conduct research as needed and advise accordingly on tax consequences of University transactions.

What we do:
Tax Services

- Provide tax planning opportunities for University
- Track legislative tax developments at the federal and state level and advise University accordingly.
- Function as University liaison with federal and state tax authorities as well as with outside consulting firms with respect to tax issues.

What we do:
Tax Services

- Administer University tax compliance with respect to nonresident alien employees, independent contractors, and scholarship/fellowship recipients.
- Produce tax forms and statements including Forms 1098-T, 1099, 1099-R, and 1042-S.

What we do:
Payroll Accounting

- Ensure timely filing of all University payroll federal and state tax related returns, reports and payments.
Produce W-2 tax forms and statements.
- Issue temporary working ids for NRA without SSN.

What we do:

Payroll Accounting

- Administer student FICA exemption.
- Administer payroll deductions including American Assoc. Univ. Pro., Actor's Equity, AFSCME Union Dues, Faculty Club, Housestaff AMA Dues, Housestaff Dues, Student Loans, UT Public Employee Assoc, and US Savings Bonds.
- Administer Garnishments, Tax Levies, Child Support, Voluntary Wage Assignments, Court Judgments, and Education Assistance Garnishments.

What you need to know about tax issues

#1-If you think you may have a tax issue and you are not sure what to do, call Tax Services

Typical tax issues you may face on an ongoing basis

1. Sales tax
2. Nonresident alien payments-special handling
3. Unrelated business income tax
4. Tax Issues with U payments
5. Employee awards
6. Student FICA exemption

Sales Tax

- Detailed sales tax training on the Tax Services website
- www.tax.utah.edu

Sales Tax

- "Sale" means any transfer of title, exchange, or barter of tangible personal property or any other taxable item or service for consideration, within the state of Utah.
- Sales tax applies only to selected services, including:
 - admissions
 - utilities
 - accommodations

Sales tax applies only to selected services, including:

- repair services
- renovation services
- installation of tangible personal property
- cleaning or washing tangible personal property
- sales of meals

University Sales

■ University Must Collect Sales Tax

- The purchaser is liable for paying the sales tax, but vendors are responsible for collecting tax and remitting it to the state. The University is a vendor. Uncollected sales tax is assessed to vendor.

Sales Tax Exemptions

- Utah sales **TO** the University for items used by the University for our mission are exempt from Utah sales tax
- To qualify for the exemption, the purchase must be made with University funds
- The purchaser must present a completed exemption certificate to the seller

Sales Tax Exemptions

- The University's Utah sales tax exemption certificate does **NOT** apply to purchases outside of Utah
- If your department is conducting business in another state, contact Tax Services and we can investigate a potential sales tax exemption in such state

Sales Tax Exemptions- Other States

- If the University is conducting business in another state (other than UT), see the Tax Services website to see if we have a sales tax exemption for such state
- www.tax.utah.edu

University Sales to Purchaser Exempt from Tax

- If a sale is made to a purchaser who is exempt from tax, the purchaser must present a valid Utah State Exemption Certificate.
- Exempt sales are not exempt from being reported to the state so you must include exempt sales on the General Accounting Monthly Sales Tax Report.

Sales Tax Exemptions

- How does a religious or charitable institution get a Utah sales tax exemption number?
- Complete an Application for Sales Tax Exemption Number for Religious or Charitable Institutions, Form TC-160
- See Tax Services website for details and links

Sales Tax Process

- Sales tax returns are due by the last day of the month following the sales month
- Penalties and interest are assessed on late filing of returns or late payment of sales tax
- General Accounting consolidates departmental sales tax information so that the University can prepare its monthly sales tax return

Sales Tax Process

- The University's form "Utah Sales Tax Monthly Report" is due to General Accounting by the 15th of the month following the sales month
- Please submit departmental reports timely

Utah Sales Tax Monthly Report

- Start with total taxable sales
- Do not include inter-departmental transactions
- Back out any out of state sales
- Total sales should be total Utah taxable sales

Utah Sales Tax Monthly Report

- Subtract tax exempt sales where the purchaser was tax exempt
- Subtract refunds
- Calculate net taxable sales
- Calculate tax according to the form
- Designate chartfield for the payment of sales tax
- Include a contact and contact phone number

Record Keeping Requirements Sales Tax

- Sellers are required to keep complete records used to determine the amount of sales tax liability
- Records must be retained for three years from the filing date of the returns
- All records are open to the Tax Commission for examination
- University departments must maintain back-up documentation for sales and sales tax liability for three years

Nonresident Alien Payments-Special Handling

- Nonresident aliens need to make an appointment with Tax Services in order to complete their required tax paperwork.
- Please call 581-5414 to make an appointment.
- The nonresident alien will need to bring the following to the appointment: social security number, passport, and visa.

Nonresident Alien Payments-Special Handling

- NRA payment tax status is unique depending on-
- Type of payment, scholarship, fellowship, wages, independent contractor
- NRA visa type-F1, J1, H1 or other
- Home country

Nonresident Alien Payments-Special Handling

- Whether home country and USA have tax treaty
- How long NRA has been in USA
- Whether certain paperwork completed

NRA employees FICA exemption

- Generally, authorized F-1 and J-1 employment, including practical or academic training, are exempt from social security taxes provided the NRA is a nonresident for tax purposes.
- The FICA exemption will not be granted until paperwork completed at Tax Services.

NRA employees FICA exemption

- Students who have been in the U.S. for more than five calendar years will be treated as residents for tax purposes. Non-students with J-1 visas who have been in the U.S. for more than two calendar years are considered residents for tax purposes and are required to pay FICA taxes.

NRA payments-additional taxes required

- NRAs are required to have taxes withheld on scholarship or fellowship payments
- Unless a treaty exemption applies

NRA payments-additional taxes required

- Nonresident alien short term visitors are required to have taxes withheld from the payment
- Unless a treaty applies

NRA payments-additional taxes required

- NRA employees are required to have additional federal taxes withheld on paychecks
- Unless a treaty applies

NRA payments

- NRA payments are complex
- All NRA payment tax status issues are settled at Tax Services
- Detailed NRA information on website: www.tax.utah.edu

NRA Payments

- NRA employees or scholarship, fellowship recipients on campus need to meet with Sara Emery, short term NRA visitors can complete most paperwork via fax, etc, arrangements can be made by contacting Sara Emery at 581-5414

Unrelated Business Income Tax

- Unrelated business income concepts
- Exceptions to unrelated business income
- Common University ubi
- University responsibilities
- Reporting requirements

UBI in General

All federally tax exempt organizations have been granted tax exempt status because they are organized and operated primarily to pursue one or more exempt purposes.

UBI in General

In spite of tax exempt status, a tax exempt organization is potentially subject to a special unrelated business income tax (ubit) that is imposed at the normal corporate tax rates on the net income earned by the entity from the conduct of a trade or business that is unrelated to its exempt purpose.

UBI in General

- Exempt organizations are not prohibited from conducting ubi activities as long as the ubi activities are not predominant.
- Organizations must consider for budgeting purposes that any net income stream from the activity will be reduced by applicable federal and state ubit.

General Definition

"Unrelated business income" is defined as gross income derived by an exempt organization, less direct expenses, from an activity which satisfies all of the following criteria:

- the activity is a trade or business
- the trade or business is regularly carried on
- the trade or business is not substantially related to the organization's exempt purpose

Definitions-Not Substantially Related

- Under this requirement, the trade or business must be one which is not substantially related to the exercise or performance by the exempt organization for the purpose or function constituting the basis for its exemption
- An activity will not be considered related to exempt functions merely because the profits from the activity are used by the organization to support its exempt activities
- The determination of whether a business activity is related or unrelated has been the subject of numerous court cases and IRS rulings.

Definitions-Not Substantially Related con't

- Each activity needs an analysis of the facts
- The trade or business is related if the conduct of the activity has a causal relationship to the achievement of the organization's exempt purpose and the relationship is substantial
- The regulations also provide that the activity must contribute importantly to the accomplishment of the organization's exempt purpose

Mission of the University

- The University of Utah is an institution of higher learning organized under the constitution and laws of the state of Utah as a body corporate and politic, controlled and supported by the people of the state, and dedicated primarily to disseminating and assimilating knowledge in advanced fields of study and higher learning, research, and intellectual service to the state and nation.

(Utah Constitution, Article X, Section 4; Utah Code 1953, 53-31-1, 2, 3. See also entire Chapter 31 of Title 53, Utah Code 1953.) (Act of Feb. 28, 1850; Utah Const. Art. X, 4; Utah Code Ann. 53-31-1 et seq. (1970).)

Statutory Exceptions to UBI

- **Royalties** are a type of income specifically excluded from the unrelated business income tax
- **Capital Gains Transactions**-All gains and losses from the sale, exchange, or other disposition of property are excluded from a charitable organization's computation of unrelated business income

Statutory Exceptions to UBI con't

- **Interest and Dividends** received by a charitable organization are excluded from unrelated business income
- **Donated goods exception**-the income is from the sale of merchandise substantially all of which was donated to the organization

Statutory Exceptions to UBI con't

- **Convenience Exception to Unrelated Business Income**-A trade or business carried on by a charitable organization **primarily** for the convenience of its members, students, patients, officers, or employees is not treated or taxed as an unrelated trade or business
- Notice who is excluded: alumni, general public
- Examples at U-Bookstore, campus restaurants

Statutory Exceptions to UBI con't

- **Research**
- Income derived from research for the US government, or any of its agencies or instrumentalities, or any State or political subdivision
- Research performed for any person in the case of a college, university or hospital

Statutory Exceptions to UBI Research con't

- Research performed by an organization operated primarily to carry on fundamental research the results of which are freely available to the general public

Statutory Exceptions to UBI con't

- Rental Exception to Unrelated Business Income-
certain types of rental income received by a charitable organization are exempt from unrelated business income

Statutory Exceptions to UBI-rent con't

- Restrictions on ubi rental exemption
- Rent must be of real property
- If personal property is leased with the real property, the exclusion will apply, but only if the amount of the rent attributable to the personal property is incidental (less than 10%) to the amount of total rent determined at the time the property is leased

Statutory Exceptions to UBI-rent con't

- If rent attributable to the personal property is 10 to 50 percent, the amount of rent attributable to the real property (but not to the personal property) still qualifies for ubi rental income exclusion
- However, if the personal property rent exceeds 50 percent of the total rent, none of the rent is eligible for ubi exclusion

Statutory Exceptions to UBI-rent con't

- The ubi rental income exclusion is not available if the rent depends in whole or in part, on the income or profits from operating the rented property
- It is permissible, however, to base the rental payments on a fixed percentage of receipts or sales

Statutory Exceptions to UBI-rent con't

- UBI rental income exclusion does not apply if services are (1) rendered primarily for the convenience of the occupant, and (2) of a nature customarily rendered in connection with the rental of rooms or other space for occupancy only

UBI Reporting

- University's fiscal year ubi tax return is due November 15th
- Information of ubi activity income and expenses due to Tax Services August 15th
- Tax Services will add additional expenses such as overhead, any allocable bond interest expense and any allocable depreciation expense-this may further reduce ubi income

UBI Reporting

- Tax Services consolidates campus wide ubi activities on tax return
- University officer signs return-under penalty of perjury-that return is COMPLETE and ACCURATE
- Tax Services allocates activity's share of federal and state ubit back to department

UBI Best Practices

- If contemplating ubi activities, involve Tax Services
- Tax Services will:
 - Look for ubi exceptions and document applicability
 - Help you understand your budget on the activity, what is potential tax affect
 - Review model contracts to look for ways to reduce ubi

UBI Best Practices

- If activity serves related and unrelated purposes, departments need to track allocation of use throughout the year
- Examples-catering, rental of facilities
- Expense allocations are based on such percentages

UBI Best Practices

- Summary information, P&L, allocation of use and other necessary yearly information goes to Tax Services for reporting
- All documentation supporting ubi activity should be maintained at the department level for a period of four years

UBI - Misc

- Utah law follows federal law for purposes of ubi

Tax Issues on U Payments

- Check Requests
- Limited Purchase Checks
- Petty Cash
- Purchasing Card

Check Requests-preferred method for taxable payments

- Used for:
- Consultants
- Independent contractors
both need independent contractor checklist

Check Requests-preferred method for taxable pmts

Guest Lecturer
Performer
both need guest lecturer/performer agreement
Honorary

Form W-9 required for taxable payments

- Form W-9 required on all previous check request type payments
- W-9 certifies taxpayer identification number
- W-9 certified taxpayer type (i.e. corporation, charity, individual, etc.)

Pmts for Instruction

- Guest lecturers performing occasional services-ok on check request
- Instructors on regular assignment, even if short term are employees and should be processed through payroll, not check request

Limited Purchase Checks for amounts not over \$1,000

- Generally not used for taxable payments
- Exceptions:
 - blood donors and research subjects
 - Repair, maintenance, custodial, plant services
- W-9 required on taxable payment exceptions

Petty Cash

- No taxable payments allowed
- Except confidential, anonymous, incidental, human subject payments
- Must meet human subject payment guidelines (See AP website.)

Purchasing Cards

- No taxable payments allowed

Employee Awards

- All remuneration to employees are wages subject to tax reporting and withholding
- Cash-always wages
- Gift certificates-always wages

Employee Awards

- Exceptions to wage treatment
- Occasional de minimis tangible property with value under \$75, such as turkey, ham, books, mugs, plaques
- Occasional sporting, movie or theater tickets

Employee Awards

- Exceptions to wage treatment-
- Five year service awards
- Retirement gifts-contact Benefits for dollar limitations based on service years

Employee Awards

- All gift certificates are wages
- Need to be reported to Payroll Accounting prior to month end
- No gift certificates after December 9 for calendar year or \$12 processing fee

Employee Awards

- See Tax Services website for additional taxability information
- All employee awards must meet general guidelines of "Meals/Incentive Awards/Flowers/Retirement Gifts", link at Tax Services

Employee Education Benefits

- Employee education benefits can be provided to employees tax free
- Education benefits not meeting criteria are reportable wages subject to employment tax withholding

Tuition Reduction Plan

- Employee's tuition reduction is not taxable income for undergraduate education
- Dependents tuition reduction benefit is not taxable income unless graduate level
- Taxability of dependent's graduate education is to employee
- Exception for TAs and RAs, allows graduate education, tax free

Employee Education Expenses Section 127

- Section 127 plan allows up to \$5,250 of educational payments per year
- University's 127 plan is integrated with Tuition Reduction Plan
- Provides \$5,250 of graduate tuition reduction for employee

Employer Paid Education Benefits

- Employer can pay employee education expenses tax free to employee if
- Education is directly related to current job or
- Education will improve skills in current job

Employee Education Benefits

- Human Resources determines eligibility for Tuition Reduction Plan
- Tax Services determines eligibility for employer paid education expenses
- Policy 2-45.IV.2 provides only job related classes

Employee Education Benefits

- Policy 2-45.IV.2 provides tuition reduction approved
- Classes directly applicable to job approved beyond tuition reduction
- Employee education expenses not directly related to job, not authorized

Student FICA Exemption

- Students are FICA exempt if:
 - Primarily students
 - In a non career position

Student FICA Exemption

- Undergraduate students
- Registered for 6 credit hours for the semester
- Employment is less than 1.0 FTE and is not benefit eligible

Student FICA Exemption

- Graduate students
- Registered for 3 credit hours per semester
- Employment is less than 1.0 FTE and not benefit eligible

Student FICA Exemption

- Summer semester
- Same criteria
- Otherwise FICA withheld for summer semester

Student FICA Exemption

- NRA Students
- Qualify for NRA FICA exemption
- When NRA FICA exemption expires, need to meet student FICA exemption or FICA withheld

Tax Overview

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???Questions???
