



# UNIVERSITY OF ILLINOIS

AT URBANA-CHAMPAIGN



## 2013 BUSINESS LEADERSHIP CONFERENCE

# Payments to Foreign Nationals

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*Destination Success*

# Workshop Presenters

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## **Please ...**

- Turn off cell phones
- Avoid side conversations
- Sign the attendance roster
- Hold your questions for the end of the presentation
- Complete the evaluation at the end of the workshop

## **Workshop Objectives**

- Determine the intent of the payment
- Determine eligibility to receive payment
- Identify the process used to submit a payment request

# Determine Intent of Payment

# Determine Intent of Payment

Type of Payment	Submission	Withholding*	Report
Employment	HRFE	Graduated	W-2
Recurring Fellowships	HRFE	30% except for F, J, M reduced rate 14%	1042-S
Independent Personnel Services Honorariums	FN Payment e-form (FNPeF)	30%	1042-S
Royalty	FNPeF	30%	1042-S
Awards/Prizes/Human Subject Payments	FNPeF	30%	1042-S
Qualified Scholarships Non-recurring Fellowships	Student Account Payment Request (SAR)	None	None
Non-Qualified Scholarships Non-recurring Fellowships	SAR	30% except for F, J, M reduced rate 14%	1042-S
Travel Reimbursements (Under Accountable Plan)	TEM system	None	None
Other Income	FNPeF	30%	1042-S

\* Illinois State tax rate of 5% applies when federal tax is withheld. Payment withholding rate assuming **no** treaty benefits.

\*\* This rate depends on tax residency for foreign nationals.

## Determine Eligibility of Payment

- Once the intent of payment has been determined, please check the [Foreign Nationals Payment Eligibility Grid](#) for the most common types of payments and links to the documents required for those payments
  - Payment eligibility is determined by the foreign national's entry (visa) status and is dictated by Title 8, Code of Federal Regulations (CFR)
  - There are various restrictions depending on the type of payment and immigration statuses which the eligibility grid will assist in determining
  - Ineligible payments can affect immigration status in the U.S. and must be taxed at the highest rate

# Methods of Submitting Payment Requests

The method for submitting payment requests vary depending on the type of payment:

- FNPeF – Foreign National Payment e-Form
- SARs – Student Account Payment Request Form
- TEM – Travel & Expense Management Form
- Foreign National Payment Form – for expenses requested by wire transfer



# Employment and Recurring Fellowship Payments

# Employment & Recurring Fellowship Payments

- An employee is defined as an individual who performs services subject to the employer's right to direct and control the work performed
- Fellowship is defined as financial support to aid in the pursuit of an individual's study or research
  - Foreign national employees will be taxed at the highest withholding rate until they have **completed** a tax status review appointment with Foreign National Service Center (FNSC)
  - Foreign national employees **must have applied for Social Security Number (SSN) and present a receipt of application or SSN** at the time of their appointment
  - The tax residency status of foreign nationals is determined at the appointment

# Employment & Recurring Fellowship Payments

To accurately determine tax residency status and benefit eligibility, foreign national employees must:

1. Have an active PEAEMPL record in Banner

\* If an individual does not have an SSN, a TCN may need to be obtained

2. Schedule an appointment with University Payroll & Benefits – FNSC [Appointment website](#)

3. Present originals, unless otherwise noted, and copies of supporting documentation at the time of appointment (required documents listed on page 4 of [FN Tax Information Form](#))

# Taxpayer Identification Numbers

Payments made to foreign nationals who do not have a valid SSN or ITIN, will be subject to the maximum withholding rate allowed.

## Individual Taxpayer Identification Numbers (ITIN)

- ITIN is issued by the Internal Revenue Service
- It is used for tax reporting and filing purposes ONLY
- If a foreign national is ineligible to receive an SSN, he/she is asked to obtain an ITIN
- Form W-7, Application for IRS Individual Taxpayer Identification Number must be completed and submitted to the IRS or to a Certified Acceptance Agent accompanied by the required documentation, see [OBFS website](#), to substantiate the individual's foreign status and identity to obtain an ITIN

# Taxpayer Identification Numbers

## *Social Security Numbers (SSN)*

- Every employee is required to have a SSN
- Due to the Department of Homeland Security review process, foreign nationals cannot apply for SSN for 10 days after entry to U.S.
- Once the SSN is received, the foreign national is required to provide the SSN to his/her department and requested to update UPB-FNSC

# Receiving a Temporary Control Number (TCN)

Employee Type	TCN Issued By
Student	Students receive an assigned TCN on their Notice of Acceptance (NOA). The student should submit the TCN to the unit/department to initiate NESSIE New Hire. If the student does not have a copy of the NOA, they can request the assigned TCN from the iCard ID office
Non-Student	<p><b>UIC</b> – Employee will receive a TCN from Office of International Services (OIS) during Employee Orientation with appropriate documentation</p> <p><b>UIUC</b> – Employee can receive a TCN from University Payroll and Benefits (UPB) with appropriate documentation</p> <p><b>UIS</b> – Employee can receive a TCN from OIS with appropriate documentation</p>

1. TCN is given to hiring unit to be used for Banner setup
2. Required documents : Receipt of Application for SSN and documentation from department indicating pending employment

# Submitting Employment & Recurring Fellowship Payments Requests

- Requests for an employee to be paid wages or a student to be paid fellowship are submitted through HRFE

# **Independent Personnel Services and Honorarium Payments**



# Independent Personnel Services and Honorarium Payments

- Independent Personnel Services are services performed by an individual wherein the employer has the right to control or direct only the result of the work, but not the means and methods of accomplishing the result, is classified as an independent contractor
  - Must have a P & A contract
- An honorarium is a one-time payment of \$5,000 or less made to an individual who is not an employee of the University, for a special and non-recurring activity or event for which a fee is not legally or traditionally required
  - The intent is to show appreciation for participation in University educational, research, or public service activities or events
  - Must have a Request for Honorarium form
  - Restrictions – honorariums may not be used for the following:
    - To replace or circumvent procedures for paying consultants
    - To pay University of Illinois salaried and non-salaried employees
    - Solely as a reimbursement in lieu of undocumented expenses

# Submitting Independent Personnel Services and Honorarium Payment Requests

- Complete the [Foreign National Payment e-Form](#) (FNPeF) to initiate an independent personnel services payment request
- Supporting documentation required is listed on OBFS>Payments to Foreign Nationals>Other Types of Payments>Independent Personnel Services or Honorarium Payments
- Supporting forms and documentation are faxed to 217-239-6909, referencing the tracking number from the FNPeF

# **Royalty Payments**

# Royalty Payments

- Royalties include payments for copyrights, patents, or permissions
- Royalty payments are reported on Form 1042-S
- Royalty payments are subject to **30% Federal and 5% State withholding** unless:
  - There is a tax treaty exemption
  - There is a lower tax treaty rate
  - It is foreign source income
- Must file Form W-8BEN to claim the tax treaty exemption or lower tax treaty rate

# Submitting Royalty Payment Requests

- Complete the [Foreign National Payment e-Form](#) to initiate an royalty payment request
- Supporting documentation required is listed on OBFS>Payments to Foreign Nationals>Other Types of Payments>Royalty
- Supporting forms and documentation are faxed to 217-239-6909, referencing the tracking number from the FNPeF

# Award, Prize and Human Subject Payments

# Award, Prize and Human Subject Payments

- Award and prize payments given in recognition of achievement are **taxable and reportable to the IRS**
- All **awards based on employment** are to be requested through ANA
- Award and prize payments are subject to taxation unless exempted by tax treaty, are foreign source income, or if **all** of the following conditions are met:
  - ☐ The recipient was selected without any action on his/her part to enter the contest or proceeding
  - ☐ The recipient is not required to render substantial future services as a condition to receive the prize or award
  - ☐ The award or prize is transferred by the payer to a governmental unit or tax-exempt charitable organization as designated by the recipient
- A human subject is a living person who is the subject of research conducted to obtain data

# Submitting Award, Prize and Human Subject Payments Requests

- Complete the [Foreign National Payment e-Form](#) to initiate an award, prize or human subject payment request
- Supporting documentation required is listed on OBFS>Payments to Foreign Nationals>Other Types of Payments>Award, Prize and Human Subject Payments
- Supporting forms and documentation are faxed to 217-239-6909, referencing the tracking number from the FNPeF



# Qualified or Non-Qualified Scholarships/Fellowships

## Qualified Scholarships/ Fellowships

- Qualified scholarship/fellowship payments are **not taxable or reportable to the IRS**
- Qualified scholarships are for:
  - Payment of tuition and fees for enrollment or attendance at an educational institution, OR
  - Books, equipment, and other material required for course instruction
- Qualified fellowships are for study or research which does not require personal service.

# Non-Qualified Scholarships/Fellowships

- Non-qualified scholarship/fellowship payments for indirect educational expenses (such as cash, living expenses, travel, etc.) are **taxable and reportable to the IRS** unless the payment is considered foreign sourced income
- The only exception to this reporting rule is foreign source income

# Non-Qualified Scholarships/Fellowships

- Taxable scholarship/fellowship from U.S. sources are subject to **30% Federal withholding and 5% State withholding**, unless the payment is exempt based on a U.S. tax treaty or under the Internal Revenue Code
- Foreign nationals in the U.S. under an **F, J, or M visa** and receiving a scholarship/fellowship can have **reduced Federal withholding at 14%**
- Any foreign national scholarship/fellowship recipient who claims exemption under U.S. tax treaty must complete Form W-8BEN. If eligible for tax treaty, the student will be contacted to complete Form W-8BEN and will be given reasonable amount of time to sign

## Submitting Qualified or Non-Qualified Scholarships/Fellowships Payment Requests

Tools to be referenced:

- Use the [Scholarship and Fellowship Payments to Nonresident Alien Students Determination, Checklist and Examples](#) form to help select the correct payment option for scholarships and fellowships
- Departments can determine if a student is a RA or NR by checking the citizenship code on the Biographical tab of the identification screens PPAIDEN or SPAIDEN in Banner
- The source of scholarships/fellowships is determined by a combination of location of activity and location of "payor" (i.e., entity which has discretion over actual distribution of funds). See [Foreign Source Income Chart](#)
- Complete the [Student Account Payment Request Form](#) to initiate a non-qualified scholarship/fellowship payment
- If supporting documentation is needed to determine tax residency, UPB-FNSC will contact requesting department for additional information and/or documentation
- NOTE: If requesting scholarship/fellowship payment for a non-UI student, please submit request on [Foreign National Payment e-Form](#)

# **Travel & Expense Reimbursement and Per Diem**

# Travel & Expense Reimbursements and Per Diem

A reimbursement is compensation to an individual or company who has incurred an expense on behalf of the University

Qualified travel expenses include:

- Hotel
- Meals
- Transportation

## **Accountable Plan:**

- The expense must have served a business purpose
- The employee has submitted receipts substantiating the date, time, place and amount within a reasonable amount of time (defined as 60 days)
- The employee returns excess advances or reimbursements within a reasonable amount of time (defined as 120 days)

# Submitting Travel & Expense Reimbursements and Per Diem

## Employees:

- Employee reimbursements for business-related expenses fall under the accountable plan and should be submitted to University Payables using the [TEM System](#)

## Students:

- Reimbursements to foreign national students for business-related expenses fall under the accountable plan and should be submitted along with the [Tax Reporting and Withholding Checklist for Foreign National Reimbursements](#), to University Payables using the [TEM System](#)
- Reimbursements determined to be study-related, should be submitted using the [Student Account Payment Request Form](#) and may be subject to withholding and reporting to the IRS

## Non-Employee:

- Complete a payment request in the [TEM System](#) , with the exception of wire transfer requests, which should be submitted on the [Foreign National Payment Form](#) and submitted to University Payroll and Benefits-Foreign National Service Center



## TEM Overview

- Employees and students set up in the TEM system can create their own expense reports (ER's) or can set up a proxy to create ER's on their behalf
- Employees and students must submit their own ER's, even if they were created by a proxy
- Payments to non-employees or non-students can be created and submitted by a TEM Power User
- TEM documents with the purpose of foreign national reimbursements route to Payroll for pre-payment approval but are paid by University Payables

## ER Purpose in TEM

### Type of Expense

- Employee or Student travel or business meal reimbursement
- Employee or Student misc. reimbursement
- Non-employee reimbursement (with Banner vendor number)
- Non-employee reimbursement (no Banner vendor number)

### Purpose

- Employee Travel/M meal Reimbursement and T-Card Charges
- Employee Misc Expense Reimbursements
- Misc Vendor – Foreign Natl Reimbursements
- Temp Vendor Payments – Foreign Natl Reimbursements

## TEM Resource Page

[www.obfs.uillinois.edu/tem-resources/](http://www.obfs.uillinois.edu/tem-resources/)

- Job Aids
- Recorded Webinars
- Course Registration
- Policy Links
- Announcements

TEM Questions? E-mail [temhelp@uillinois.edu](mailto:temhelp@uillinois.edu)

# Other Income

# Other Income

Other income may include but are not limited to: insurance, rent, medical bills, door prize (i.e. iPad, gift cards, etc.) which are considered taxable and reportable income to a foreign national.

- Complete the [Foreign National Payment e-Form](#) to initiate the payment request
- Supporting documentation required is listed on OBFS>Payments to Foreign Nationals>Payments to Foreign Nationals, Required Documents
- Supporting forms and documentation are faxed to 217-239-6909, referencing the tracking number from the FNPeF

## Department's Role

The department's role is to ***present and assist all foreign nationals*** engaged by the University ***with the completion and submission of the required forms and documents*** to University Payroll, in order to help the University of Illinois comply with IRS tax withholding and reporting obligations.

# **Additional Factors Affecting Payments to Foreign Nationals Withholding and Reporting Requirements**

# Additional Factors Affecting Payments

- Tax Residency Status
  - Nonresident or Resident for tax purposes by Substantial Presence Test focuses on an alien's physical presence in the U.S. to determine the residency status
- Source of Payments
  - Determined by a combination of location of activity and location of "payor"
    - Personal services - Where services were performed
    - Scholarship and Fellowship Grants - Generally, residence of payer
    - Royalties – Patents, Copyrights, etc. – Where property is used
    - Royalties – Natural Resources – Where property is located
    - Awards and Prizes – Where activities are performed
- Tax Treaties
  - A tax treaty is a taxation agreement between foreign countries
  - Defines tax treatment of citizens of one country present in another to minimize the potential of double taxation
  - Treaties identify taxation for each payment type
  - If all criteria are met, the nonresident alien may qualify for reduced U.S. Federal or State withholding on the payment
  - Tax treaty exemptions are not permitted without a valid tax identification number



# Assistance

Information	Campus	Contact
Immigration information, such as documents required to enter the U.S., or the process and procedures to remain in the U.S.	Urbana-Champaign	Office of International Student Affairs
	Chicago	Office of International Services
	Springfield	International Student Services
Pay-related information, such as taxes, tax treaty eligibility, independent contractors, or Individual Taxpayer Identification Numbers (ITINs)	ALL	University Payroll and Benefits Foreign National Service Center  FnInquiry@uillinois.edu

## Website Information

You can find detailed information about Payments to Foreign Nationals at <http://www.obfs.uillinois.edu>

Business and Financial Policies and Procedures Manual: See Section 17 – Consultants, Independent Contractors, and Honoraria, or Section 18.2 – Foreign Nationals

IRS service locations outside the U.S.:

<http://www.irs.gov/localcontacts/article/0,,id=101292,00.html>

U.S. Embassies: <http://www.usembassy.gov/>

## Helpful IRS Publications

The Internal Revenue Service has issued the following publications for the benefit of foreign visitors to the U.S.:

Publication 515	Withholding of Tax on Nonresident Aliens and Foreign Corporations
Publication 519	U.S. Tax Guide for Aliens
Publication 901	U.S. Tax Treaties

You can obtain the publications above, along with many other IRS publications, by calling 1-800-TAX-FORM (1-800-829-3676) toll-free, or online at:

<http://www.irs.gov/formspubs/index.html>

## Workshop Summary

It is our hopes this presents payments to foreign nationals with ease of understanding how a payment is to be submitted based on eligibility and the intent.

# Questions / Concerns?