2016 Business Leadership Symposium

Tax Implications
Tuesday, April 5, 2016
Introductions

- Terry Thompson – Treasury Operations, University Tax
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- Roger Fredenhagen – OBFS, University Accounting and Financial Reporting
- Derek Rakoci – OBFS, University Payroll and Benefits
Objectives

- Overview of the Tax Department
- Sales Tax Purchasing Exemptions/Selling
- University Amazon Group
- Nexus
- Prizes/Gifts/Awards
- Reimbursements/Accountable Plan and 60 Day Rules
- Fringe Benefits:
  - Relocation
  - Tuition
  - De Minimis
Overview of the Tax Department

- Mission
- Legal Status & Exemptions
- Who is Affected?
- Risks
- Procedures & Resources
Mission

- Manage tax and other business-related issues
- Protect the University's exempt status
- Ensure compliance with relevant laws and rules
Legal Status & Exemptions

- Dual status exempt organization
- Section 18.12, Tax Status and Exemption, of OBFS PPM contains:
  - Additional information on the University’s exempt status
  - Exemption letters
  - IRS Form W-9
- Increased focus and enforcement on tax exempt entities by governmental authorities, including: federal, states, municipalities, and countries
Who is Affected?

Dear IRS,

I am writing to you to cancel my subscription.

Please remove my name from your mailing list.
Who is Affected?

Unfortunately, the governmental authorities are not removing the University from their mailing lists.
Who is Affected?

- Procurement Services (Purchasing/UPAY)
- University Payroll & Benefits
- Accounting
- Internal Audits
- Dept. Business Managers
- Capital Finance
- Legal Counsel/Consultants
- Student Financial Services
- International Offices
- UI Admin: CFO, BOT, Other
- Tax
What risks are identified?
Risks

- Compliance/Audit Risk
- Financial Risk
- Public Relations Risk
Procedures & Resources

- OBFS PPM, Section 18, Taxes: [https://www.obfs.uillinois.edu/bfpp/section-18-taxes](https://www.obfs.uillinois.edu/bfpp/section-18-taxes)

- Other links throughout the:  
  - OBFS PPM [https://www.obfs.uillinois.edu/bfpp/](https://www.obfs.uillinois.edu/bfpp/) and
  - OBFS website [https://www.obfs.uillinois.edu/](https://www.obfs.uillinois.edu/)
Sales Tax Purchasing Exemptions

- Exemptions in various states
- Units must attempt to utilize the University’s exemptions
- All University exemptions are limited to University use only
- Posting of exemption letters on websites open to the general public is prohibited
- No expiration on the University’s State of Illinois sales tax exemption

Resource:
- Section 18.6, Sales Tax: [https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6](https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6)
Sales Tax – Selling

- Sale of personal property to non-exempt end users require collection of sales tax

- State of Illinois process
  - Current: report tax in CFOAPAL
  - Future: report sales in CFOAPAL

- Sales to customers in other states (currently 16) require collection of sales taxes

- Procedures & Resources:
  - Section 18.6, Sales Tax: [https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6](https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6)
University Amazon Group

- Background
- University Amazon Group (UAG) (Tax and Procurement Services)
- Centrally managed Amazon Business account
- Process:
  - UAG invites DCMs
  - DCMs invite appropriate departmental P-Cardholders
  - DCMs assist with ongoing maintenance of their Amazon groups
  - University exemption information needs to uploaded individually
- P-Card policy exception
- Continue to maximize use of University Contracts found in iBuy
University Amazon Group

- Greater visibility on spending
- All purchases must be for University business purposes
- Purchase with P-cards
- UAG website: https://www.obfs.uillinois.edu/purchases/university-amazon-group/
Nexus
Nexus

- What is nexus?
- Is the University affected by nexus?
- What creates nexus?
Types of Nexus & Requirements

- Physical presence
- Economic presence
- Click-through nexus
- Business registration and withholding/reporting obligations
Challenges of Nexus

- Increased audit risk of noncompliance
- Complexity of rules (varies by location)
- Frequent changes in rules
- Ongoing review
Nexus

- Procedures & Resources:
  - Section 1.8, Establishing Facilities Outside the State of Illinois: [https://www.obfs.uillinois.edu/bfpp/section-1-business-financial-administration/section-1-8](https://www.obfs.uillinois.edu/bfpp/section-1-business-financial-administration/section-1-8)
  - Section 18.6, Sales Tax: [https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6](https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6)
Prizes/Gifts/Awards

- Oprah 2004 *Free* Car Giveaway
- Three Options Given:
  - Keep the car and pay the tax,
  - Sell the car and pay the tax, or
  - Forfeit the car
- Was there controversy? YES
- Were the cars free? NO
- Oprah 2010 Free Car Giveaway
Prizes/Gifts/Awards

- Prizes, gifts, and awards are typically taxable
  - Cash and cash equivalents are always taxable
- Exceptions:
  - Certain employee achievement awards
  - Prizes and awards transferred to charities
  - De minimis awards and prizes
- Reporting and withholding requirements vary depending on recipient
Prizes/Gifts/Awards: Given to Students

- Overview

  - Procedures are located on the OBFS website, under Payments, Payments to Students, then Prizes and Awards

  - Reported on Form 1099-MISC or Form 1042-S for foreign nationals

- Procedures & Resources:
  - Payments to University of Illinois Students: [https://www.obfs.uiuinois.edu/payments-vendors-students/payments-students/](https://www.obfs.uiuinois.edu/payments-vendors-students/payments-students/)
  - Payments to Foreign Nationals: [https://www.obfs.uiuinois.edu/cms/One.aspx?portalId=77176&pageId=91132](https://www.obfs.uiuinois.edu/cms/One.aspx?portalId=77176&pageId=91132)
Prizes/Gifts/Awards: Given to Employees

- Overview
- Tracking limit $100
- Employee Achievement/Retirement Awards:
  - Reporting if cumulative value is greater than $400 in a calendar year,
  - Must be given for length-of-service or safety,
  - Must be awarded as part of a meaningful presentation, and
  - Cannot be disguised as compensation
- Reported on Form W-2 subject to applicable withholdings
Prizes/Gifts/Awards: Given to Employees

- Procedures & Resources:
  - Section 4, Submit Taxable Fringe Benefit Payments: [https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments](https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments)
  - Section 8, Determine the Allowability of Gifts, Prizes, and Awards: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/determine-allowability-gifts-awards](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/determine-allowability-gifts-awards) (various links from this website)
Prizes/Gifts/Awards: Given to Non-Employees

- Overview
- Tracking limit $100
- Reported on Form 1099-MISC or Form 1042-S for foreign nationals
Prizes/Gifts/Awards: Given to Non-Employees

- Procedures & Resources:
  - Section 8, Payments and Reimbursements: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/)
  - Section 8, Payments to Non-University of Illinois Employees: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/tax-implications-for-payments](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/tax-implications-for-payments)
  - Payments to Foreign Nationals: [https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pagId=91132](https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pagId=91132)
Reimbursements/Accountable Plan and 60 Day Rules

- What is an accountable plan?

- Requirements:
  - A business connection,
  - Substantiation/adequately account for expenses within 60 days after it is paid or incurred (must include: date, time, place, amount, and business purpose), and
  - Return excess amounts timely, preferably within 15 days upon completion of travel.
Reimbursements/Accountable Plan and 60 Day Rules

- Procedures & Resources:
  - Section 8, Request Reimbursement for Employee Travel and Business Meals: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-travel-business-meals](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-travel-business-meals)
Fringe Benefits

- Overview
- Relocation
- Tuition
- De Minimis
Relocation

- Overview
- Reimbursement for qualified moving expenses (not taxable)
  - Commencement of work
  - Distance test
  - Time test
- Reimbursements that are not qualified moving (taxable and subject to reporting and withholding)
Relocation Policy

- Current policy under review

- Possible changes:
  - Resource guide
  - Contracted Movers
  - Dollar limits
Relocation Procedures & Resources

- Section 8, Moving Reimbursements for Faculty, Administrators, and Academic Professionals: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/moving-reimbursements](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/moving-reimbursements)
- Section 8, Request Reimbursement for Moving Expenses: [https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-employee-moving-expenses](https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-employee-moving-expenses)
- Purchasing, Employee Household Moving: [https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=91422#howtouse](https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=91422#howtouse)
- Section 4, Submit Taxable Fringe Benefit Payments: [https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments](https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments)
Tuition

- Overview
- Maximum calendar year allowance: $5,250
- Types of tuition benefits for both undergraduate and graduate level tuition:
  - Tuition waivers
  - Departmental payments
  - Reimbursements
- Use of Pcards for tuition payments is prohibited
Tuition Procedures & Resources

- OBFS Payroll & Benefits, Tuition and Fees: Waivers and Departmental Payments: https://www.obfs.uillinois.edu/payroll/tuition-fee-waivers/

- Section 4, Submit Taxable Fringe Benefit Payments: https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments


De Minimis

- Overview
- IRS: no dollar value assigned
- University limit: less than $100
- Examples include: candy bars, coffee, doughnuts, pens
- Examples that are NOT de minimis:
  - Cash and cash equivalents
  - Season tickets

Resource:
Contacts

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Questions?
Please complete evaluations.

Thank you!