Presentation to the Financial Administrator Development Program

Financial & Tax Policies/Processes

November 23, 2015
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Lee Hunter, Chief Accountant, Accounting
Agenda

• Introduction
• Overview of financial policies and procedures
• Financial reporting and taxes
• Questions
Financial Policies and Procedures
Policy - Purposes and goals

- Provide reasonable assurance that MSU’s fiscal goals are met
- Promote efficient and effective operations
- Support compliance with laws, rules, and regulations
- Keep costs monitored and contained
- Provide reliable financial reporting
External factors impacting policy & other requirements

• IRS or other federal regulations and laws
  • Changes in treasury regulations
  • Changes in interpretive guidance
  • Federal grants and programs
  • New or changed reporting requirements
  • New or changed taxes

• State regulations and laws
  • New or changed taxes
  • Specific tax or reporting guidelines

• Other
  • Generally Accepted Accounting Principles (GAAP)
  • Governmental Accounting Standards (GASB)
Internal factors impacting policy

• Board Actions
• Policies to address MSU concerns
  • New or changed reporting requirements
  • Enhanced cost monitoring and control
• Clarification and interpretation
• Departmental requests
New or changed policy process

1. Policy is identified
2. Policy is quantified and qualified
3. Policy is approved
4. Internal Audit is notified of policy change
5. Manual of Business Procedures is updated and campus notified
Policy interpretation

• What does policy and procedure mean?
• Is policy always black and white?
Policy scenario

• Three departmental staff members go out to dinner to discuss reporting for a new initiative. How should dinner be paid?
  a. Dinner should be charged to the department.
  b. Each person should pay for their own dinner.
  c. Department should pay except for alcoholic beverages.
Taxes and Financial Reporting
Tax considerations

• UBIT
• Sales and use tax
• Raffles and giveaways
• Employee housing
UBIT test – 3 prongs

Regularly Carried On + Trade or Business + Not Substantially Related = UBIT
How can I identify UBIT?

• Are we selling goods or service?
• Are they available to the General Public?
• Am I marking up cost for a profit?
• Is the activity unrelated to MSU’s exempt mission?
• Is this activity in response to direction of being more “entrepreneurial” in order to bring in new revenue streams to the department?
Related to what?

Educational, Research & Public Service Mission

How the funds are earned **does** matter

How the funds are used **does not** matter
Are there exceptions/exemptions?

• Passive activity (i.e. rents, royalties, interest)
• Activity conducted by volunteers
• Research Activity
• “Convenience Exception”
## Examples

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>UBIT?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Golf Course</td>
<td>Use of golf course, driving range, and pro shop by anyone.</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>Advertising in Athletic programs</td>
<td></td>
</tr>
<tr>
<td>Wharton Center</td>
<td>Theater production, music events</td>
<td></td>
</tr>
<tr>
<td>Online Sales</td>
<td>Products (ex. T-shirts, ornaments, flags, etc.) sold online to anyone.</td>
<td></td>
</tr>
<tr>
<td>Athletic Events</td>
<td>Tickets to Athletic events</td>
<td></td>
</tr>
<tr>
<td>Corporate Sponsorships</td>
<td>Company gives money to sponsor event or program</td>
<td></td>
</tr>
<tr>
<td>Meeting Room Rental</td>
<td>Catering and room rental available to anyone</td>
<td></td>
</tr>
</tbody>
</table>
Is it advertising or acknowledgement?

<table>
<thead>
<tr>
<th>Advertisement</th>
<th>Acknowledgement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contains qualitative or comparative language</td>
<td>Sponsor name, location, address, telephone numbers, web address</td>
</tr>
<tr>
<td>Endorsement, or inducement to purchase</td>
<td>Slogans or logos that do not contain qualitative or comparative language</td>
</tr>
<tr>
<td>Pricing information or other indications of savings or value</td>
<td>Sponsor’s brand or trade names and product or service listing</td>
</tr>
</tbody>
</table>
UBIT reminders

It is **OK** to engage in taxable activity

Factor tax into cost structure

It is better to receive $0.70 on a dollar than $0.00
Collecting sales and use tax - examples

- Meals (exception current enrolled students)
- Books, printed materials, t-shirts, other tangible personal property.
- Equipment rental
- Lodging and overnight accommodations (<30 days)
- Room rental (only when overnight accommodations are available)
Raffle, giveaways and housing

• Raffles – There is a ‘wager’ to be entered. Must be licensed if total prizes for the day are greater than $100. MBP Section 49

• Giveaways – No purchase to enter. Depending on FMV of prize, may be tax reportable to winner. MBP Section 44

• Employee Housing- In general housing provided to an employee is taxable unless they are in travel status. MBP Section 46 & 53
Tax scenario

- Department A needs to supplement their budget to support a new training initiative. The following suggestions were made:
  a. Rent out facility to local companies for conference/meeting use.
  b. Hold a fundraising dinner and charge admission.
  c. Actively seek contracts with outside companies to perform testing services.
Transaction classification

- Income or Expense?
- Expense Abatement?
- What object code?
- Subject to tax reporting?
- Subject to tax payments?
- Who owes the tax?
Income

• Grants
• Gifts
• Tuition
• State Allocations
• Sales of goods and services
  • Testing
  • Research services
• Royalties and Copyrights
Identify the income

- Source
- Income... or
- Expense reduction
- Appropriate fund

- Result of invoices for goods or services?
  - Gifts?

- What is the nature of the funds?

- Where should the income be recognized?
Expense

- Supplies
- Services
- Royalties and Copyrights
- Rents
- Personnel
  - Salaries
  - Benefits
Identify the expense

1. What is the nature of the expense?
2. Report with proper object code.
3. Subject to tax reporting?
Expense abatements...

• Credit an expense object code
• Should only be used when receiving monies for:
  • Reimbursements of expenses paid in error
  • Overpayments
  • Refunds of expenses previously incurred, and no longer owed
Expense abatements continued...

Expense abatements are not:

• Payment from an outside company to support half the salary cost of a faculty member working with the company
• Monies from a non-MSU source supporting an upcoming conference a department is hosting
• Sale of old or unused supplies a department owns

Expense abatements are:

• Employee cancels attendance at a conference and company sends refund check for the conference registration
• Company overcharged by $200 on an invoice for services and sends a check to MSU for the overcharge
## Who are you paying?

<table>
<thead>
<tr>
<th>Receiving payment</th>
<th>Tax Form Reported On</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual/Vendor</td>
<td>1099-MISC</td>
</tr>
<tr>
<td>Non-resident Alien (NRA)</td>
<td>1042-S</td>
</tr>
<tr>
<td>Student</td>
<td>1098-T</td>
</tr>
<tr>
<td>Employee</td>
<td>W-2</td>
</tr>
</tbody>
</table>
From payment to 1099-MISC

Invoice

Disbursement Voucher or Payment Request (KFS)

Year end Form 1099-MISC
If you pay a nonresident alien...

- Were services provided? If so, where?
- Services provided in the U.S. are subject to tax withholding
- Taxes are paid by MSU to the government (similar to payroll)
- Departments can pay the taxes (added cost to department)
- Intellectual property use in the U.S. subject to tax withholding
  - Royalties
  - Copyrights
- Tax treaties may mitigate tax withholding
- U.S. or foreign tax ID required for tax treaty benefits
## Nonresident alien taxes on 1042-S

<table>
<thead>
<tr>
<th>Reason for payment</th>
<th>Services provided in the U.S.?</th>
<th>Tax report?</th>
<th>Withhold taxes?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of goods</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Honoraria</td>
<td>Yes</td>
<td>Yes</td>
<td>Depends – tax treaty may mitigate</td>
</tr>
<tr>
<td>Honoraria</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Consulting</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Consulting</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Royalties</td>
<td>No</td>
<td>Yes</td>
<td>Depends – tax treaty may mitigate</td>
</tr>
</tbody>
</table>

Reminder – No TIN, no treaty
If you pay a student (non-wage)....

The payment should go through Student Accounts if it is for the benefit of the student

(i.e. housing, student insurance, even travel)

Annual basis all payments to students are reported on a Form 1098-T
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• http://ctlr.msu.edu/ - additional information, forms, etc.