

**Presentation to the
Financial Administrator Development Program**

***Financial & Tax
Policies/Processes***

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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

Policy is identified

Policy is quantified and qualified

Policy is approved

Internal Audit is notified of policy change

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. Alcohol has been included. 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.

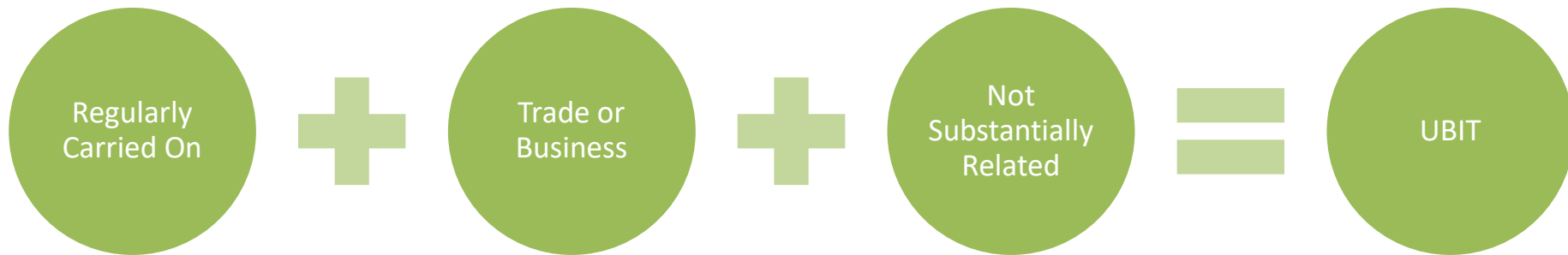
Taxes and Financial Reporting



Tax considerations

- UBIT
- Sales and use tax
- Raffles and giveaways

UBIT test – 3 prongs



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

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

Is it advertising or acknowledgement?

Advertisement	Acknowledgement
Contains qualitative or comparative language	Sponsor name, location, address, telephone numbers, web address
Endorsement, or inducement to purchase	Slogans or logos that do not contain qualitative or comparative language
Pricing information or other indications of savings or value	Sponsor's brand or trade names and product or service listing

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)

Raffles and giveaways

- Raffles – There is a ‘wager’ or ‘consideration’ 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

Tax scenario

Department A allows the general public to rent out their conference and meeting rooms. Both IT and catering services will be made available to those renting the rooms. What tax concerns does the department need to be aware of?

Transaction classification

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

Income

- Grants
- Gifts
- Tuition
- State Allocations
- Sales of goods and services
 - Testing
 - Research services
- Royalties and Copyrights

Identify the income

Result of invoices for goods
or services?
Gifts?

- Source

What is the nature of the
funds?

- Income... or
- Expense reduction

Where should the income be
recognized?

- Appropriate fund

Expense

- Supplies
- Services
- Royalties and Copyrights
- Rents
- Personnel
 - Salaries
 - Benefits

Identify the expense



Who are you paying?

Receiving payment	Tax Form Reported On
Individual/Vendor	1099-MISC
Non-resident Alien (NRA)	1042-S
Student	1098-T
Employee	W-2

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

Reason for payment	Services provided in the U.S.?	Tax report?	Withhold taxes?
Purchase of goods	No	No	No
Honoraria	Yes	Yes	Depends – tax treaty may mitigate
Honoraria	No	No	No
Consulting	Yes	Yes	Depends – tax treaty may mitigate
Consulting	No	No	No
Royalties	No	Yes	Depends – tax treaty may mitigate

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

Expense abatements...

- Credit an expense object code
- Should only be used when receiving monies for:
 - Reimbursements of expenses paid in error
 - Overpayments
 - Refunds of a 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

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