Presentation to the
Financial Administrator Development Program

Financial & Tax Policies/Processes

November 27, 2012
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Beth Powers, Tax Manager, Financial & Cost Analysis
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 by Controller
Internal Audit is notified of policy change
Manual of Business Procedures is updated and campus notified
Recent or revised policies

• Reporting cash/currency received > $10K in a transaction
• Charitable gaming
• Non-Michigan sales tax
Policy interpretation

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

A
• Wireless Communications

B
• Food and Beverages

C
• Flower Purchases
Financial Reporting and Taxes
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**
  - Result of invoices for goods or services?
    - Gifts?
- **Income or expense reduction**
  - What is the nature of the funds?
- **Appropriate fund**
  - 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 expenditure 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
Tax quiz!

1. Is Michigan State University tax exempt?
Tax quiz!

2. Does Michigan State University pay tax?
Tax quiz!

3. What is UBIT?
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>Sales to general public</td>
<td>Yes</td>
</tr>
<tr>
<td>Advertising</td>
<td>Advertising in Athletic programs</td>
<td>Yes</td>
</tr>
<tr>
<td>Wharton Center</td>
<td>Theater production, music events</td>
<td>No</td>
</tr>
<tr>
<td>Online Sales</td>
<td>Products unrelated to the mission of the University available to general public</td>
<td>Yes</td>
</tr>
<tr>
<td>Athletic Events</td>
<td>Tickets to Athletic events</td>
<td>No</td>
</tr>
<tr>
<td>Corporate Sponsorships</td>
<td>Company gives money to sponsor event or program</td>
<td>No</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>
Spectrum of compliance

Conservative

MSU

Risk
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
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 or Request for Payment

Disbursement Voucher (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. 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>
<td>Depends – tax treaty may mitigate</td>
</tr>
<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
Other state sales tax...Should we pay it?

<table>
<thead>
<tr>
<th>State</th>
<th>Exemption Allowed</th>
<th>Expiration Date</th>
<th>State ID Number</th>
<th>Instructions</th>
<th>Latest Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>no</td>
<td></td>
<td></td>
<td>Educational Organizations are not applicable for Exemption.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Arizona</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Arkansas</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>California</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Colorado</td>
<td>yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Provide State of Michigan tax ID exemption number to suppliers (same as federal id# 38-6005-984). Can provide affidavit (page 5 of Colorado publication FYI Sales 1)</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Connecticut</td>
<td>yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Exempt via 501(c) (3) status. Complete Cert 119 for Goods and Services. For meals and lodging complete Cert 112 (Needs approval from Dept of Revenue Services, must be submitted at least three weeks in advanced). Must include IRS determination letter.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Florida</td>
<td>yes</td>
<td>12/31/2017</td>
<td>78-20-062896-57C</td>
<td>Provide copy of Consumer’s Certificate of Exemption to seller.</td>
<td>9/29/2012</td>
</tr>
<tr>
<td>Georgia</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Idaho</td>
<td>yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Illinois</td>
<td>yes</td>
<td>10/1/2013</td>
<td>E9949-1907-02</td>
<td>Provide tax ID exemption number to suppliers</td>
<td>6/21/2012</td>
</tr>
<tr>
<td>Indiana</td>
<td>yes</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Iowa</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Kansas</td>
<td>yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Complete Form ST 101 for sales tax exemption on goods, provide to vendor. Check box 3. Exempt buyer - nonprofit school. For exemption on Lodging accommodations use form ST-104-HM. MSU must be billed directly by credit card for this exemption to be used.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Kentucky</td>
<td>yes</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Complete and give vendors Form ST-28, Out-of-state exemption certificate.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Louisiana</td>
<td>no</td>
<td></td>
<td></td>
<td>Provide seller copy of Permanent Exemption Certificate</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Maine</td>
<td>yes</td>
<td>Not applicable</td>
<td></td>
<td>Only applies to tax exempts located in Maryland or surrounding jurisdiction that do a substantial business in Maryland.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>yes</td>
<td>9/21/2018</td>
<td>386-005-984</td>
<td>Complete and give Form ST-5 to seller, attaching Form ST-2, Certificate of Exemption and renewal letter to it.</td>
<td>5/21/2012</td>
</tr>
<tr>
<td>Minnesota</td>
<td>yes</td>
<td>Not applicable</td>
<td></td>
<td>Complete and give Form ST-3 to seller.</td>
<td>5/22/2012</td>
</tr>
<tr>
<td>Mississippi</td>
<td>no</td>
<td></td>
<td></td>
<td></td>
<td>5/22/2012</td>
</tr>
<tr>
<td>Missouri</td>
<td>yes</td>
<td>Not applicable</td>
<td></td>
<td>Copy and provide letter of exemption to vendor.</td>
<td>5/22/2012</td>
</tr>
<tr>
<td>Nebraska</td>
<td>no</td>
<td></td>
<td></td>
<td>Only educational institutions in Nebraska are exempt from sales tax.</td>
<td>5/22/2012</td>
</tr>
<tr>
<td>Nevada</td>
<td>no</td>
<td></td>
<td></td>
<td>Limited to educational institutions in the state.</td>
<td>6/22/2012</td>
</tr>
</tbody>
</table>
Contact information

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  • epowers@ctlr.msu.edu; 884-4279

• Lee Hunter, Accounting Manager
  • hunteri@ctlr.msu.edu; 884-4164

• http://ctlr.msu.edu/ - additional information, forms, etc.