Tax Issues for Business Officers

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Why should I care about taxes?

1. I don’t – that’s someone else’s problem.
2. I don’t – UC is tax-exempt.
3. Only the little people pay taxes.
4. UC is subject to tax, therefore I need to care about this.
Overview

- Tax Audits
- Taxes Imposed on:
  - University of California
  - Employees and Students
  - Independent Contractors
- Web Link to Tax Policies

Sales Tax Audits

FY 2001-2004

<table>
<thead>
<tr>
<th>Campus</th>
<th>Assessment*</th>
<th>Reduction/Refund</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Davis</td>
<td>$600,000</td>
<td>$(2,190,000)</td>
<td>$(1,590,000)</td>
</tr>
<tr>
<td>Berkeley</td>
<td>514,000</td>
<td>(617,000)</td>
<td>(103,000)</td>
</tr>
<tr>
<td>UCSF</td>
<td>6,000,000</td>
<td>(5,675,000)</td>
<td>325,000</td>
</tr>
<tr>
<td>UCSF MC</td>
<td>3,388,000</td>
<td>(1,759,000)</td>
<td>1,629,000</td>
</tr>
<tr>
<td>UCSB</td>
<td>135,000</td>
<td>(325,000)</td>
<td>(190,000)</td>
</tr>
<tr>
<td>UCSD</td>
<td>0</td>
<td>(700,000)</td>
<td>(700,000)</td>
</tr>
<tr>
<td>Total</td>
<td>$10,637,000</td>
<td>$(11,266,000)</td>
<td>$(629,000)</td>
</tr>
</tbody>
</table>

*Approximate
IRS Payroll Audits

UCLA, UCSD, LANL, UCOP

- Executive compensation and fringes
- Travel and entertainment payments
- Coaches and athletes (campuses only)
- Forms W-2, 1099, 1042-S, 1098-T

UC Tax Status

UC has dual tax exemption:

- Under IRC Section 501(c)(3)
- As a State entity

Accounting Manual Chapter T-182-735
Taxes Imposed on UC

- Unrelated Business Income Tax (UBIT)
- California Sales and Use Tax

*Note:* Even though UC is tax-exempt it is subject to UBIT and Sales and Use Tax

Unrelated Business Income Tax

An unrelated business activity must be a:

- Trade or business,
- Regularly carried on, and
- Not substantially related to the University’s exempt purpose

*Business and Finance Bulletin A-61*
California Sales and Use Tax

- **Sales Tax** - imposed on retail sales of tangible personal property in California
- **Use Tax** - imposed on persons who store, use, or consume (in California) tangible personal property purchased from an out-of-state vendor

*Accounting Manual Chapter T-182-73*

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Sales and Use Tax on Purchases  
FY 2005-06

<table>
<thead>
<tr>
<th>Campus</th>
<th>Purchases</th>
<th>Sales/Use Tax</th>
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<tbody>
<tr>
<td>Berkeley</td>
<td>$93,585,000</td>
<td>$7,419,000</td>
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<tr>
<td>Davis</td>
<td>53,281,000</td>
<td>4,128,000</td>
</tr>
<tr>
<td>Irvine</td>
<td>65,096,000</td>
<td>6,995,000</td>
</tr>
<tr>
<td>Los Angeles*</td>
<td>49,560,000</td>
<td>4,089,000</td>
</tr>
<tr>
<td>Merced*</td>
<td>1,998,000</td>
<td>155,000</td>
</tr>
<tr>
<td>Riverside</td>
<td>36,433,000</td>
<td>2,024,000</td>
</tr>
<tr>
<td>San Diego</td>
<td>129,151,000</td>
<td>10,009,000</td>
</tr>
<tr>
<td>San Francisco</td>
<td>106,311,000</td>
<td>9,037,000</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>65,966,000</td>
<td>5,345,000</td>
</tr>
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<td>Santa Cruz*</td>
<td>14,486,000</td>
<td>1,181,000</td>
</tr>
<tr>
<td>UCOP*</td>
<td>302,000</td>
<td>26,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$634,151,000</strong></td>
<td><strong>$50,808,000</strong></td>
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</table>

*Includes only use tax on out-of-state purchases*
Taxes Imposed on Employees and Students

Note: The University is responsible for withholding tax on most taxable payments made to employees and students.

Scholarships and Fellowships

- **Qualified expenses** – *required* tuition, fees, books, supplies, and equipment – Not taxable.
- **Non-qualified expenses** – room and board, travel, health benefits, etc., *not required* for enrollment – Taxable.
- **No withholding required**, except for nonresident aliens
- **Scholarship/Fellowship** – can not be in exchange for performance of services.

*Accounting Manual Chapter T-182-77*
Employee Educational Assistance

Not taxable if:

- Job-related training
- Undergraduate courses
- Graduate courses – RA or TA
- Graduate courses – Staff, up to $5,250 per year

*Accounting Manual Chapter T-182-77*

Moving and Relocation

- Moving of household goods and effects – Not taxable
- Travel to new location – Not taxable
- Meals, house hunting trips, and other expenses – Taxable
- Move must occur within one year of start of work

*Business and Finance Bulleting G-13*
Cell Phones

- Equipment and Services – Employees must sign agreement certifying that use will be primarily for business.
- Cell Phones – Only personal calls in excess of package minutes must be reimbursed.
- Cell Phone Contracts – Plan minutes must reflect expected business use.

Business and Finance Bulletin G-46

Nonresident Aliens (NRAs)

- The University has purchased the Glacier online tax compliance system
- NRAs will enter their own data into the system
- Glacier will produce all residency and tax forms

Accounting Manual Chapter T-182-27
Taxes Imposed on Independent Contractors

**Note:** The University must withhold California tax at 7% on payments exceeding $1,500 per calendar year made to nonresident contractors performing services in the State.

Independent Contractors

- **Pre-Hire Worksheet** – Should be completed documenting relationship
- **Employees** – May not be hired as contractors
  - Teaching and Research Exception
  - One-year and Two-year rules
- **UNEX** – Current employees, including faculty, may not be hired as contractors

*Business and Finance Bulletins BUS-43 and BUS-77*
UC Tax Policies and Procedures

- Accounting Manual
- Business and Finance Bulletins
- UBIT Nonfinancial Questionnaire
- Sales and Use Tax Manual
- Nonresident Alien Taxation

http://www.ucop.edu/ucophome/cao/paycoord/