



# 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

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

\*Approximate

## IRS Payroll Audits

### UCLA, UCSD, LANL

- Executive compensation and fringes
- Travel and entertainment payments
- Coaches and athletes (campuses only)
- Forms W-2 and 1099

## 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*

## Sales and Use Tax on Purchases FY 2005-06

<b>Campus</b>	<b>Purchases</b>	<b>Sales/Use Tax</b>
Berkeley	\$93,585,000	\$7,419,000
Davis	53,261,000	4,128,000
Irvine	85,098,000	6,595,000
Los Angeles*	49,560,000	4,089,000
Merced*	1,998,000	155,000
Riverside	36,433,000	2,824,000
San Diego	129,151,000	10,009,000
San Francisco	106,311,000	9,037,000
Santa Barbara	63,966,000	5,345,000
Santa Cruz*	14,486,000	1,181,000
UCOP*	302,000	26,000
<b>Total</b>	<b>\$634,151,000</b>	<b>\$50,808,000</b>

\*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.

## 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*

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## 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 Bulletin G-13*

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## 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 is purchasing an **on-line** tax compliance system
- NRAs will enter their **own data** into the system
- System 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 on payments made to nonresident contractors performing services in the State

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## 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*

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## 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/>