



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

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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

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Sales and Use Tax Audits

All campuses have been audited by the State Board of Equalization (BOE) except **UCSC**

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UC Tax Status

UC has dual tax exemption:

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

IRS Form 6166 (exemption certificate) needed by foreign payors - contact John Barrett

Accounting Manual Chapter T-182-735

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Taxes Imposed on UC

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

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

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Unrelated Business Income Tax

An unrelated business activity must be a:

- **Trade or business,**
- **Regularly carried on, and**
- **Not substantially related to UC's exempt purpose**

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IRS Tax Return

- UC files the **Form 990-T** to report its UBIT activities. The return is subject to public inspection
- As a State entity, UC is **exempt** from filing the **Form 990**, which is an annual information return filed by private universities and other non-profits

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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 2006-07

Campus	Purchases	Sales/Use Tax
Berkeley	\$ 90,454,000	\$ 7,915,000
Davis	139,101,000	10,780,000
Irvine	75,069,000	5,818,000
Los Angeles	284,110,000	23,439,000
Riverside	18,527,000	1,436,000
San Diego	123,865,000	9,600,000
San Francisco	117,591,000	9,995,000
Santa Barbara	55,203,000	4,554,000
Santa Cruz	17,088,000	1,367,000
Lawrence Berkeley Lab	306,000	27,000
Total	\$ 921,314,000	\$ 74,931,000

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OASDI and Medicare Taxes Paid by UC FY 2006-07

• Berkeley	\$ 47,498,000
• Davis	75,837,000
• Irvine	49,542,000
• Los Angeles*	121,708,000
• Riverside	13,903,000
• San Diego	64,255,000
• San Francisco	86,908,000
• Santa Barbara	18,535,000
• Santa Cruz	15,359,000
• Lawrence Berkeley Lab	14,271,000
Total	\$ 507,816,000

* UCLA includes Merced and UCOP

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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

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Employee Educational Assistance

The following courses are not taxable:

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

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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

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Cell Phone

Current Policy:

- **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

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Nonresident Aliens (NRAs)

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

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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

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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/>

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