



# 2016 Business Leadership Symposium

Tax Implications  
Tuesday, April 5, 2016

# Introductions

- Terry Thompson – Treasury Operations, University Tax
- Brenda Sutherland – Treasury Operations, University Tax
- Roger Fredenhagen – OBFS, University Accounting and Financial Reporting
- Derek Rakoci – OBFS, University Payroll and Benefits



# Objectives

- Overview of the Tax Department
- Sales Tax Purchasing Exemptions/Selling
- University Amazon Group
- Nexus
- Prizes/Gifts/Awards
- Reimbursements/Accountable Plan and 60 Day Rules
- Fringe Benefits:
  - Relocation
  - Tuition
  - De Minimis

# Overview of the Tax Department

- Mission
- Legal Status & Exemptions
- Who is Affected?
- Risks
- Procedures & Resources



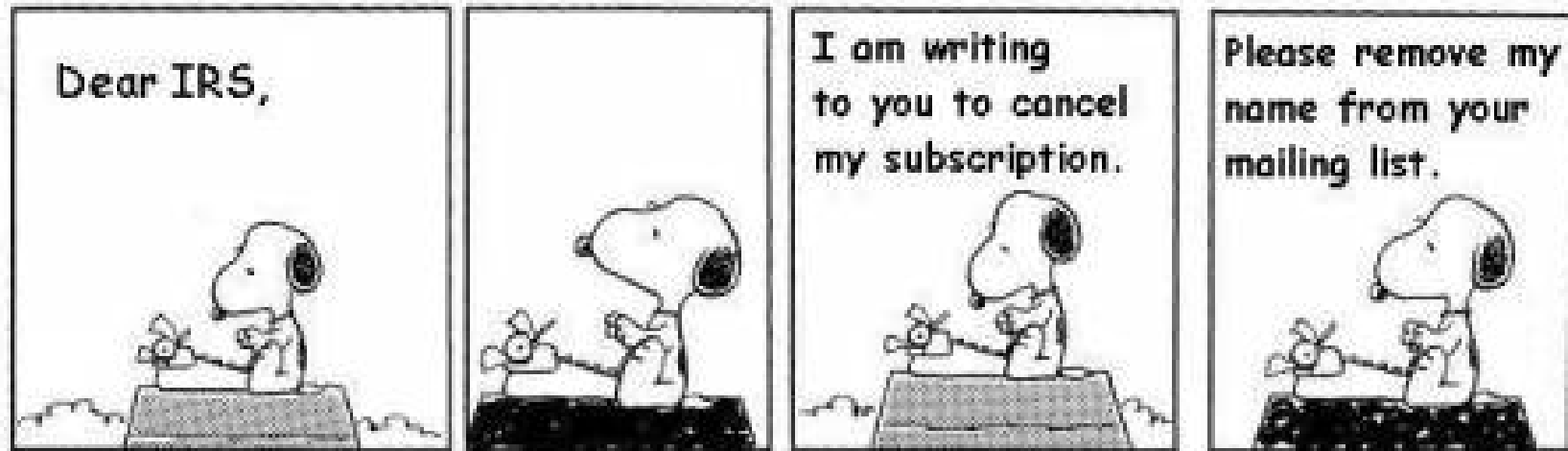
# Mission

- Manage tax and other business-related issues
- Protect the University's exempt status
- Ensure compliance with relevant laws and rules

# Legal Status & Exemptions

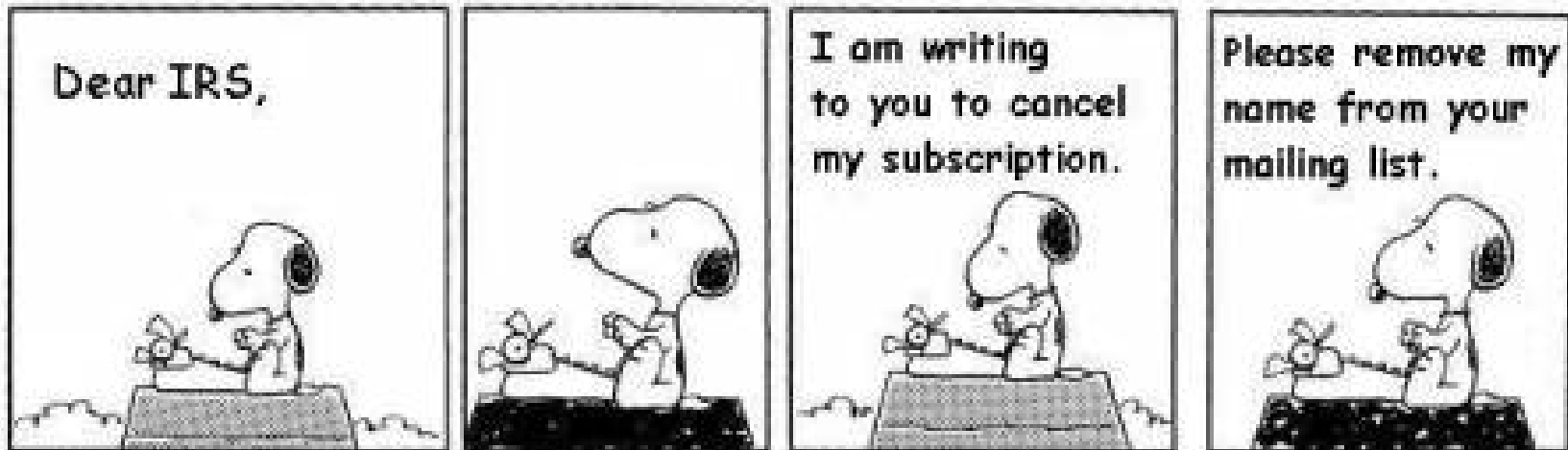
- Dual status exempt organization
- Section 18.12, Tax Status and Exemption, of OBFS PPM contains:
  - Additional information on the University's exempt status
  - Exemption letters
  - IRS Form W-9
- Increased focus and enforcement on tax exempt entities by governmental authorities, including: federal, states, municipalities, and countries

# Who is Affected?



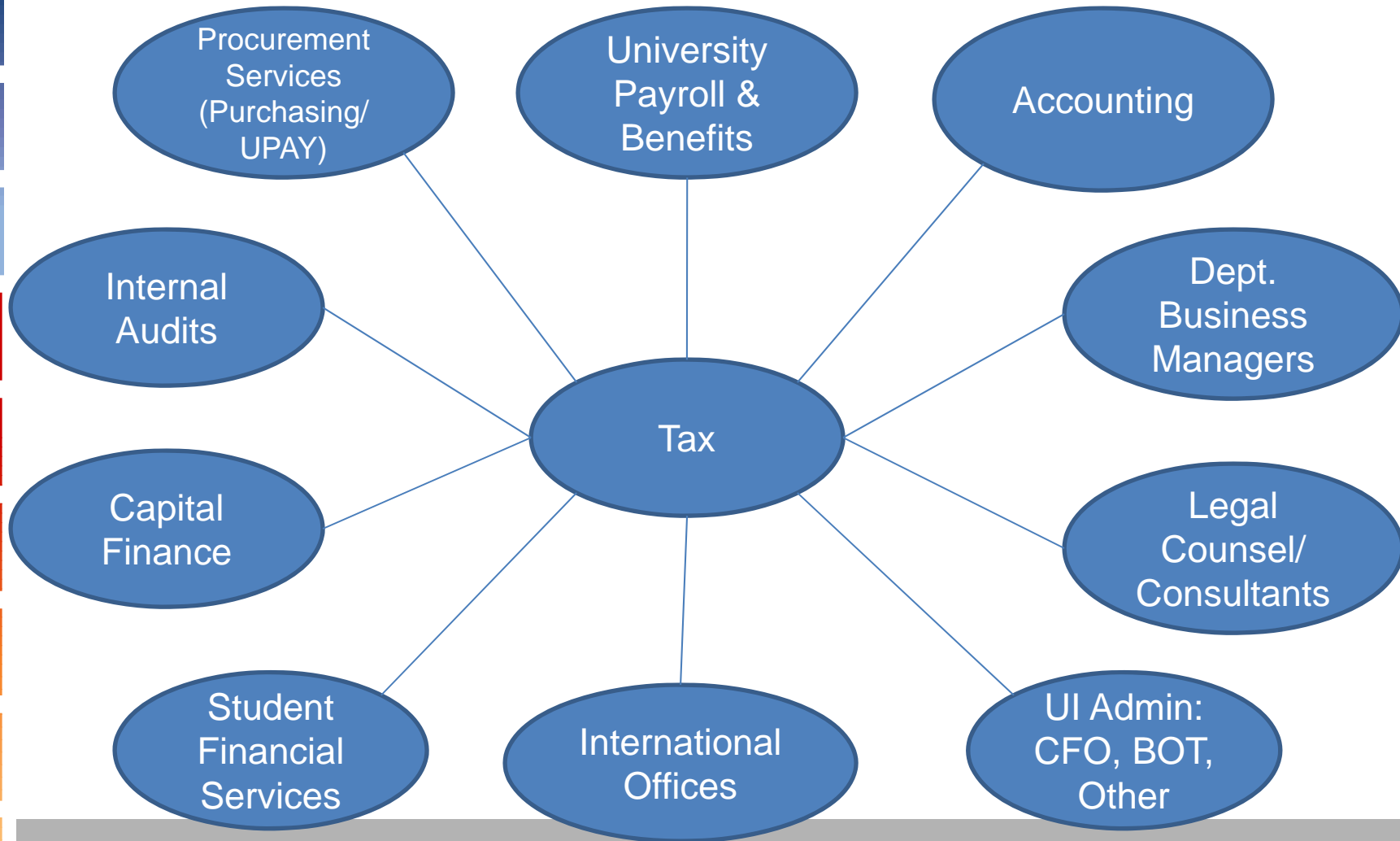
# Who is Affected?

Unfortunately, the governmental authorities are not removing the University from their mailing lists.





# Who is Affected?



# What risks are identified?





# Risks

- Compliance/Audit Risk
- Financial Risk
- Public Relations Risk

# Procedures & Resources

- OBFS PPM, Section 18, Taxes:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes>
- Other links throughout the:
  - OBFS PPM  
<https://www.obfs.uillinois.edu/bfpp/> and
  - OBFS website <https://www.obfs.uillinois.edu/>

# Sales Tax Purchasing Exemptions

- Exemptions in various states
- Units must attempt to utilize the University's exemptions
- All University exemptions are limited to University use only
- Posting of exemption letters on websites open to the general public is prohibited
- No expiration on the University's State of Illinois sales tax exemption
- Resource:
  - Section 18.6, Sales Tax:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6>

# Sales Tax – Selling

- Sale of personal property to non-exempt end users require collection of sales tax
- State of Illinois process
  - Current: report tax in CFOAPAL
  - Future: report sales in CFOAPAL
- Sales to customers in other states (currently 16) require collection of sales taxes
- Procedures & Resources:
  - Section 22, Collect and Report Sales Tax: <https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/collect-report-sales-use-tax>
  - Section 18.6, Sales Tax: <https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6>

# University Amazon Group

- Background
- University Amazon Group (UAG) (Tax and Procurement Services)
- Centrally managed Amazon Business account
- Process:
  - UAG invites DCMs
  - DCMs invite appropriate departmental P-Cardholders
  - DCMs assist with ongoing maintenance of their Amazon groups
  - University exemption information needs to be uploaded individually
- P-Card policy exception
- Continue to maximize use of University Contracts found in iBuy

# University Amazon Group

- Greater visibility on spending
- All purchases must be for University business purposes
- Purchase with P-cards
- UAG website:  
<https://www.obfs.uillinois.edu/purchases/university-amazon-group/>



# Nexus





# Nexus

- What is nexus?
- Is the University affected by nexus?
- What creates nexus?

# Types of Nexus & Requirements

- Physical presence
- Economic presence
- Click-through nexus
- Business registration and withholding/reporting obligations

# Challenges of Nexus

- Increased audit risk of noncompliance
- Complexity of rules (varies by location)
- Frequent changes in rules
- Ongoing review



# Nexus

- Procedures & Resources:
  - Section 1.8, Establishing Facilities Outside the State of Illinois:  
<https://www.obfs.uillinois.edu/bfpp/section-1-business-financial-administration/section-1-8>
  - Section 18.16, Implications of Conducting Business Outside the State of Illinois:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-16>
  - Section 18.6, Sales Tax:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-6>

# Prizes/Gifts/Awards

- Oprah 2004 **Free** Car Giveaway
- Three Options Given:
  - Keep the car and pay the tax,
  - Sell the car and pay the tax, or
  - Forfeit the car
- Was there controversy? YES
- Were the cars free? NO
- Oprah 2010 Free Car Giveaway

# Prizes/Gifts/Awards

- Prizes, gifts, and awards are typically taxable
  - Cash and cash equivalents are always taxable
- Exceptions:
  - Certain employee achievement awards
  - Prizes and awards transferred to charities
  - De minimis awards and prizes
- Reporting and withholding requirements vary depending on recipient

# Prizes/Gifts/Awards: Given to Students

- Overview
- Procedures are located on the OBFS website, under Payments, Payments to Students, then Prizes and Awards
- Reported on Form 1099-MISC or Form 1042-S for foreign nationals
- Procedures & Resources:
  - Payments to University of Illinois Students:  
<https://www.obfs.uillinois.edu/payments-vendors-students/payments-students/>
  - Payments to Foreign Nationals:  
<https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=91132>



# Prizes/Gifts/Awards: Given to Employees

- Overview
- Tracking limit \$100
- Employee Achievement/Retirement Awards:
  - Reporting if cumulative value is greater than \$400 in a calendar year,
  - Must be given for length-of-service or safety,
  - Must be awarded as part of a meaningful presentation, and
  - Cannot be disguised as compensation
- Reported on Form W-2 subject to applicable withholdings

# Prizes/Gifts/Awards: Given to Employees

- Procedures & Resources:
  - Section 4, Submit Taxable Fringe Benefit Payments: <https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments>
  - Section 8, Determine the Allowability of Gifts, Prizes, and Awards: <https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/determine-allowability-gifts-awards> (various links from this website)
  - Section 18.5, Fringe Benefits: <https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-5>

# Prizes/Gifts/Awards: Given to Non-Employees

- Overview
- Tracking limit \$100
- Reported on Form 1099-MISC or Form 1042-S for foreign nationals

# Prizes/Gifts/Awards: Given to Non-Employees

- Procedures & Resources:
  - Section 8, Payments and Reimbursements:  
<https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/>
  - Section 8, Payments to Non-University of Illinois Employees:  
<https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/tax-implications-for-payments>
  - Payments to Foreign Nationals:  
<https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=91132>

# Reimbursements/Accountable Plan and 60 Day Rules

- What is an accountable plan?
- Requirements:
  - A business connection,
  - Substantiation/adequately account for expenses within 60 days after it is paid or incurred (must include: date, time, place, amount, and business purpose), and
  - Return excess amounts timely, preferably within 15 days upon completion of travel.

# Reimbursements/Accountable Plan and 60 Day Rules

- Procedures & Resources:
  - Section 8, Request Reimbursement for Employee Travel and Business Meals: <https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-travel-business-meals>
  - Section 15, Open a Travel Advance: <https://www.obfs.uillinois.edu/bfpp/section-15-travel/open-travel-advance>
  - Section 18.5, Fringe Benefits: <https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-5>
  - IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses: <https://www.irs.gov/pub/irs-pdf/p463.pdf>
  - IRS Publication 5137, Fringe Benefit Guide: <https://www.irs.gov/pub/irs-pdf/p5137.pdf>

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# Fringe Benefits

- Overview
- Relocation
- Tuition
- De Minimis

# Relocation

- Overview
- Reimbursement for qualified moving expenses (not taxable)
  - Commencement of work
  - Distance test
  - Time test
- Reimbursements that are not qualified moving (taxable and subject to reporting and withholding)





# Relocation Policy

- Current policy under review
- Possible changes:
  - Resource guide
  - Contracted Movers
  - Dollar limits

# Relocation Procedures & Resources

- Section 8, Moving Reimbursements for Faculty, Administrators, and Academic Professionals: <https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/moving-reimbursements>
- Section 8, Request Reimbursement for Moving Expenses: <https://www.obfs.uillinois.edu/bfpp/section-8-payments-reimbursements/request-reimbursement-employee-moving-expenses>
- Purchasing, Employee Household Moving: <https://www.obfs.uillinois.edu/cms/One.aspx?portalId=77176&pageId=91422#howtouse>
- Section 4, Submit Taxable Fringe Benefit Payments: <https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments>
- Section 18.5, Fringe Benefits: <https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-5>
- IRS Publication 521, Moving Expenses: <https://www.irs.gov/pub/irs-pdf/p521.pdf>



# Tuition

- Overview
- Maximum calendar year allowance: \$5,250
- Types of tuition benefits for both undergraduate and graduate level tuition:
  - Tuition waivers
  - Departmental payments
  - Reimbursements
- Use of Pcards for tuition payments is prohibited

# Tuition Procedures & Resources

- OBFS Payroll & Benefits, Tuition and Fees: Waivers and Departmental Payments:  
<https://www.obfs.uillinois.edu/payroll/tuition-fee-waivers/>
- Section 4, Submit Taxable Fringe Benefit Payments:  
<https://www.obfs.uillinois.edu/bfpp/section-4-payroll/submit-taxable-fringe-benefit-payments>
- Section 18.5, Fringe Benefits:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-5>
- IRS Publication 970, Tax Benefits for Education:  
<https://www.irs.gov/pub/irs-pdf/p970.pdf>

# De Minimis

- Overview
- IRS: no dollar value assigned
- University limit: less than \$100
- Examples include: candy bars, coffee, doughnuts, pens
- Examples that are NOT de minimis:
  - Cash and cash equivalents
  - Season tickets
- Resource:
  - Section 18.5, Fringe Benefits:  
<https://www.obfs.uillinois.edu/bfpp/section-18-taxes/section-18-5>

# Contacts

- Terry Thompson
  - [terryt@uillinois.edu](mailto:terryt@uillinois.edu) or 217-244-8359
- Brenda Sutherland
  - [brsuther@uillinois.edu](mailto:brsuther@uillinois.edu) or 217-244-8359
- Roger Fredenhagen
  - [frednhgn@uillinois.edu](mailto:frednhgn@uillinois.edu) or 217-333-7156
- Derek Rakoci
  - [drakoci@uillinois.edu](mailto:drakoci@uillinois.edu) or 312-996-1922

# Questions?





Please complete evaluations.

**Thank you!**