Complex Payments & Tax Guidance

October 11, 2017

Lisa Hall, Tax Accountant
Julie Hughes, Travel & Complex Payment Supervisor
Three areas of tax:

- Federal Tax
- North Carolina State Tax
- Foreign National Tax
● Identify Payee
  ● Company
  ● Employee
  ● Non-employee
    ● providing services, complete Independent Contractor Checklist (ICC)
    ● If necessary, complete vendor setup forms

● Determine Payment type and appropriate funding
  ● Submitter responsible for understanding appropriate use of funds
  ● Policy 601.8 Appropriate Use of University Funds

● Complete payment paperwork
  ● Attach supporting documentation
  ● Obtain appropriate approvals
Worker Classification: Should the service provider be classified as an employee or independent contractor?

Applies to all individuals who provide services to the University (consultants, project assistants, lecturers, editors, dancers, translators, etc.)

Determination must take place prior to any service being performed.

IRS is focusing its resources on worker classification issues because a significant economic incentive exists for employers to classify workers as independent contractors as opposed to employees.

Misclassification may result in the substantial assessment of delinquent taxes and potential interest and penalties.
The web based form can be found here:
http://finance.uncc.edu/resources/forms/independent-contractor-checklist-icc-eform

Frequently asked questions concerning this issue can be found here:
https://faq.uncc.edu/pages/viewpage.action?pageId=19955755

The web based form manual can be found here:
http://workflowforms.uncc.edu/imaging/imaging-forms-department/tax-office
Worker Classification

Three tests to assess the appropriate classification:

- **Behavioral Control**
  - Focuses on the type of instructions given and the training provided to perform the job

- **Financial Control**
  - Addresses the right to control the business and financial aspects of the worker’s job

- **Relationship of the Parties**
  - Considers how the parties perceive their relationship
  - Speaks to the parties’ intent with regard to direction and control of the work

Collect information and weigh to make determination

None of the tests are conclusive in and of themselves
Worker Classification

- Identify the person as a service provider

- Only applied to individuals, not businesses being paid under an Employer Identification Number

- Complete Independent Contractor Checklist prior to the services being performed and prior to any submission for payment
  - Web form submitted to the Tax office

- IRS form SS-8 may be filed by either a worker or a business to request an IRS determination of worker status
State employees are subject to the dual employment rules per the NC State Personnel Manual

- Required to be paid as an employee
- *Borrowing agency* completes the CP-30 form and payment is made through *parent agency*

**Note:** The new ICC e-form will help you to determine if the individual is subject to the Dual Employment Rules

**Policy:**
- [https://oshr.nc.gov/policies-forms/employment-records/dual-employment](https://oshr.nc.gov/policies-forms/employment-records/dual-employment)

**CP-30 Form:**
- [http://hr.uncc.edu/sites/hr.uncc.edu/files/media/forms/CP30.pdf](http://hr.uncc.edu/sites/hr.uncc.edu/files/media/forms/CP30.pdf)
Misclassification can lead to incorrect withholding of taxes and incorrect reporting of payment.

The name given to the payment by the payer is not controlling:
- A scholarship requiring services to be performed is compensation
- A stipend may be a scholarship, a fellowship grant, or compensation

More information is required to process these payment types correctly.
Payment Type

**Dependent (Employees)**
- Wages/Salary/Stipend (also applies to an employee within the calendar year)
  - Human Resources/Academic Affairs Forms
- Travel Reimbursement
  - Employee Travel Authorization/Reimbursement (TA/TR)
- Other Reimbursement
  - Direct Pay Request (DPR)

**Independent (Independent Contractors)**
- Independent Personal Services/Consulting Fee/Honorarium/Guest Speaker Fees
  - Direct Pay Request (DPR) or 49er Mart (if vendor accepts Purchasing Orders)
- Travel Reimbursement/Payment
  - DPR and/or Non-employee Travel Authorization/Reimbursement (TA/TR)
- Other Payment
  - Invoiced/Direct Pay Request
Reportable Payments

Form 1099-MISC issued for each non-employee person paid at least $600 in the calendar year for payments that include:

- Rents
- Royalties
- Fees
- Commissions
- Services performed as a non-employee
- Prizes and awards to a non-employees
- Medical and health care payments
- Gross proceeds to an attorney
Generally, the following payments are not required to be reported on Form 1099-MISC:

- Payments to Corporations (except medical and legal)
- Payments for Merchandise (except if services provided with merchandise)
- Business Expense Reimbursements
- Scholarships or Fellowships (reported on Form 1098-T)
Stipend

A generic form of payment in a higher education setting. This requires further definition for payment processing purposes.

Payment for services
- Wages – processed under compensation guidelines (employee within the calendar year)
- Honorarium

No service component
- Scholarship
- Participant stipend
Participant Stipend

Payment made to non-UNCC employee individuals for participation in a particular event in a higher education setting.

Payment has no element of service, past, present or future

- A payment to cover living expenses
- A payment for participation in a research study or project, online survey, conference, workshop, etc.

Processing procedures:

- Complete Direct Pay Request with supporting documentation that includes payment details and business purpose
- Grant fund stipends can be processed through SEA system (grant funds only!)
An award of financial aid for the student to further their education and/pay for personal educational expenses

- Tuition and Fees
- Room and Board
- Book Allowances
- Parking
- Travel Award (if no University business purpose)

Processing procedures: (have changed)

- US citizens, Non-US citizens & Travel Awards
  - Student Educational Award (online)
  - [http://research.uncc.edu/departments/grants-contracts-administration-gca/grants-services/paying-tuition-fees](http://research.uncc.edu/departments/grants-contracts-administration-gca/grants-services/paying-tuition-fees)
Honorarium

A payment and associated incidental expenses for a usual academic activity or activities for which payment is not legally required.

- Recognition of acts or professional services
- Fee for services rendered by a professional person
- Token of appreciation

Processing procedures:

- Direct Pay Request
  - After the event has occurred
  - Supporting documentation includes
    - Payment details with business purpose
    - Agenda or invite
    - Must have the $ amount you intended to give on the invite or memo
NC Statute requires withholding at a rate of 4% on cumulative payments over $1,500 during a calendar year for certain personal services performed in NC by nonresidents and ITIN holders.

**Nonresidents** are defined as vendors that are not residents of NC and can be an individual, foreign limited liability companies, partnerships, and corporations.

[https://faq.uncc.edu/pages/viewpage.action?pageId=15178080](https://faq.uncc.edu/pages/viewpage.action?pageId=15178080)
For purposes of the 4% withholding, the personal services subject to withholding are limited to the following personal services in connection with:

- A performance
- An entertainment or athletic event
- A speech, or
  - A “speech” is one that amuses, entertains, or informs and includes instructors at seminars that are open to the public for an admission fee
- The creation of a film, radio, or television program

Vendors who have obtained a Certificate of Authority from the NC Secretary of State are exempt from this withholding.
An ITIN (Individual Taxpayer Identification Number) holder is a person who is not eligible for a social security number and whose taxpayer identification number is an ITIN. Usually non-resident aliens have ITINs unless they have been employed on a working or student visa.

Only applicable to individuals

“Services” are defined as services performed in NC for compensation paid to a non-employee.
## Foreign National Tax Compliance

<table>
<thead>
<tr>
<th>Tax System</th>
<th>Residency Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Tax System</td>
<td>US Citizens</td>
</tr>
<tr>
<td></td>
<td>Lawful Permanent Residents</td>
</tr>
<tr>
<td></td>
<td>Resident Alien for Tax Purposes</td>
</tr>
<tr>
<td>Nonresident Alien Tax System</td>
<td>Nonresident Alien for Tax Purposes</td>
</tr>
</tbody>
</table>
The Tax Office reviews the Foreign National Information Form for tax residency and tax treaty eligibility.

The Tax Office reviews the Foreign National Information Form for tax residency and tax treaty eligibility. The form is completed by the foreign national and submitted to the Tax Office. The form includes personal information such as last name, first name, middle name, date of birth, social security number (or ITIN), and U.S. telephone number. It also includes address information for both the U.S. address and home country/permanent address. The completed form is then reviewed by the Tax Office to determine the foreign national's tax residency and eligibility for tax treaty benefits.
Nonresident Aliens

General Rule

- Must withhold federal income tax from all income payments made to or on behalf of a nonresident alien

Withhold at 30% unless
- An exception is available (e.g. treaty, scholarship, employment wage withholding)
  - and
- The requirements for exceptions are met

If the withholding agent does not withhold the appropriate amount of tax at the time of payment, the withholding agent will be liable for the tax, plus any penalties and interest – regardless of whether the individual pays the tax on his or her tax return
Royalties

- Payment for the use of intellectual property
  - Examples include:
    - Rights to music, movies, literature
    - Licenses

- Must determine the residency status of the payee prior to payment

- Treaty benefits may be available, depending on the country, if recipient has a US TIN (Taxpayer Identification Number)
Gross-up

Increase of gross payment due to recipient to cover any taxes withheld so the individual receives the full amount

- Must use Discretionary funds
- Check option for this on Direct Pay Request
  - Federal 30% nonresident alien withholding
  - NC 4% out-of-state payee withholding
Gifts, Awards, and Prizes

“And remember to check with your accountant, as the gifts I’ve bestowed upon you may be subject to tax.”

©Marty Bucella

www.martybucella.com
Prizes and Awards

Payment to recognize and reward actions or achievements
Department decides whether prize/award is educational or non-educational

**Educational** – prize/award is required to be used to further education (e.g. scholarship); payment is made via Student Account
- Process via Student Educational Award (online)

**Non-educational** – prize/award can be used for any purpose; payment is made directly to student
- Process via Direct Pay Request
- Include supporting documentation with payment details and business purpose
Gift Cards

Gift cards should be for tangible personal property, of minimal value, and given infrequently

Processing procedures:
  - Purchasing Card
  - Direct Pay Request to vendor request check pick up to hand carry to vendor or Direct Pay Request as reimbursement
    - Provide supporting documentation that includes payment details, business purpose, quantity and dollar amount of gift cards
    - If confidentiality of the recipients is required by the research or study, note this on the Direct Pay Request

Policy 101.18
Gifts, Awards, and Prizes Policy 101.18

- Appendix A – Non-reportable Limits for Allowable Gifts, Awards, and Prizes
- Appendix B – Reportable Gifts, Awards, & Prizes Documentation Form
  - Submit to the Tax Office only if the recipient meets the reportable limits defined in Appendix A
- Appendix C – Gifts, Awards, & Prizes Log Sheet
  - Tracked by the department
  - Not required to be submitted to the Controller’s Office

http://legal.uncc.edu/policies/up-101.18
A fringe benefit is a form of payment in addition to stated pay for the performance of services.

Examples: Travel and meal reimbursements, subscriptions to business periodicals, employee picnics, sporting or theater tickets, club dues, etc.

General rule: Additional pay is taxable unless specifically excluded by the Internal Revenue Code.

Common exclusions:
- Accountable plan
- Working condition fringe benefits
- De Minimis fringe benefits
- Qualified tuition reductions
- Meals or lodging for employer’s convenience
- Qualified moving expense reimbursements
Personal Reimbursements

- Non-travel business expense reimbursements
- Purchasing card
  - Eliminates the need for non-travel employee reimbursements via DPR
  - Low dollar, high volume purchases
  - Eliminates sales tax expense

- Direct Pay Request – for reimbursement not on p-card
  - Itemized receipt
  - Supporting documentation that includes payment details and business purpose
  - Food, Beverage and Amenity Form (may be needed)
Receipts

Receipts are required for reimbursement

A valid receipt must include documentary evidence that supports
- date
- time
- place
- amount
- business purpose
Missing Receipts

For lost receipts, file a Missing Receipt Affidavit form

- Not required for parking, taxi, tolls, and other cash transportation expenditures for $25 or less
- Supervisor signature required

**UNC CHARLOTTE**
**MISSING RECEIPT AFFIDAVIT**

Please read the Missing Receipt Affidavit requirements on the next page. Missing Receipt Affidavits lacking the required information or documentation will be returned to the authorized signer.

**Airline Ticket Receipts**

- Attached is a copy or fax of the airline ticket receipt (last page of the ticket stub).
- OR, I certify that I have contacted the agency and was unable to obtain a copy of the ticket receipt. Therefore, I have attached the following:

**Hotel Folio**

- Attached is a copy or fax of the hotel folio.
- OR, I certify that I have contacted the agency and was unable to obtain a copy of the hotel folio.
University has an exclusive contract with Chartwells to provide food for events on campus

- Includes on-campus meetings, coffee breaks, refreshments
- Policy 709, Food Service Policy
- Any exception must be approved by the Auxiliary Service Contract Manager, Lyn Woodruff, or the Director of Auxiliary Services, or can contact: Marisa Elston, mjelston@uncc.edu, 7-7352

Processing procedures:

- On-campus food purchases
  - Chartwells catering via 49er Mart
  - Food, Beverage and Amenity Form
  - Invoice

- Off-campus food purchases
  - P-card with Hospitality Profile or Direct Pay Request
  - Food, Beverage and Amenity Form
  - Other supporting documentation that includes payment details, and business purpose
Other Taxes

Unrelated Business Income Tax (UBIT)
- Trade or Business (that is)
- Regularly Carried On (which is)
- Not Substantially Related (to UNC Charlotte’s tax-exempt mission).

Reasonable Expense Allocation Method

Certain Exclusions or Exceptions may apply
- Convenience Exception

Sales Tax
- When selling goods or services we may be required to charge sales tax and remit the tax monthly to the state
- Current rate in Mecklenburg County is 7.25%
Questions

QUESTIONS

ANSWERS
Some Payments seem Complex because of the reporting and withholding requirements associated with:

- Federal Tax
- North Carolina State Tax
- Foreign National Tax

Remember:

- To clearly Identify the Payee before making the payment
- Employee/Independent Contractor
- Complete ICC Checklist if needed
- Determine the appropriate Payment type/Funding
- Complete the correct paperwork
- Please contact the Tax Office for information concerning foreign vendor payments
Resources

- Tax Office website

- Travel and Complex Payments website

- Policy Statement #601.8, Appropriate Use of University Funds
  - http://legal.uncc.edu/policies/up-601.8

- North Carolina Budget Manual
  - http://www.osbm.nc.gov/library

- Research Cost Management Scholarship Award System
  - http://research.uncc.edu/departments/grants-contracts-administration-gca/grants-services/paying-tuition-fees

- Admin Chat Room Group – (Now a Google Group)
Contacts

Tax Office
  Reese Building, 3rd Floor

Tax Accountant
  Lisa Hall 7-5742

Assistant Controller – Tax and Payroll
  Robyn Diehm 7-5819
Contacts

Travel and Complex Payments
- Reese Building, 3rd Floor
- travel@uncc.edu

Payment Specialists
- Jane Hawes (A-E)
- Chloe Black (F-Lh)
- Chris Maynard (Li-R)
- Wendy Haigler (S-Z)

Reconciliation Specialist (Vendor Set-up)
- Melanie Stricklin
- vendor-setup@uncc.edu

Travel and Complex Payment Supervisor
- Julie Hughes 7-5650