POLICY STATEMENT

It is the policy of the University to comply with the income tax withholding and reporting requirements established by the Internal Revenue Service (IRS), the California Franchise Tax Board (FTB), and local tax authorities. The University also complies with the withholding and reporting requirements established by other states and localities in connection with employees who are hired or assigned to work outside of California.

REASON FOR POLICY

This Policy summarizes the withholding and reporting requirements for payments made to individuals who are U.S citizens or resident aliens. Such payments are made through the University’s accounts payable (AP), payroll, and student systems, in accordance with regulations published by the IRS and the FTB.
Further information is included in the individual policies covering the specific payment type. See Related Information. For information regarding payments made to foreign individuals, see Nonresident Aliens Payment Policy.

WHO SHOULD READ THIS POLICY

Any employee who is responsible for approving payments to individuals on behalf of the University; the members of the Leadership Team, as well as supervisors and Business Managers who supervise an employee with such responsibilities.

POLICY TEXT

This Policy provides general information on the federal and state tax reporting and withholding requirements governing payments made to U.S. citizens and resident aliens through the University’s payroll and AP systems. The Policy also covers scholarship and fellowship payments made to students through the student system. Regardless of the payment system, all amounts disbursed by the University are subject to withholding and reporting in accordance with the requirements established by the IRS, the FTB, and other tax authorities that have jurisdiction over the University. As the withholding agent, the University is responsible for withholding the correct amount of tax associated with its payment activities and promptly depositing those taxes with the appropriate government agencies.

Appendix A includes a table summarizing the income and FICA (i.e., social security and Medicare) tax withholding and reporting requirements associated with numerous types of payments commonly made by the University. Because it would not be possible to include all payments in the table, Business Managers should consult the related University policies referenced below or contact the Office of Accounting and Business Services (ABS) for additional information.

PROCEDURES

- Authorization
- AP System Payments
- Payroll System Payments
- Student System Payments
- Payments to Foreign Individuals
RELATED INFORMATION

<table>
<thead>
<tr>
<th>Type</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>USF</td>
<td>Department Payroll Controls Policy - Under Construction</td>
</tr>
<tr>
<td>USF</td>
<td>Electronic Communication Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Honorarium Payments Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Independent Contractor Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Moving Reimbursement Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Non-Cash Gifts, Awards and Incentives Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Nonresident Alien Payments Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Student Employment Policy</td>
</tr>
<tr>
<td>USF</td>
<td>Travel and Entertainment Policy</td>
</tr>
<tr>
<td>External</td>
<td>IRS Publication 15-B, Employer’s Tax Guide to Fringe Benefits</td>
</tr>
<tr>
<td>External</td>
<td>IRS Publication 505, Tax Withholding and Estimated Tax</td>
</tr>
<tr>
<td>External</td>
<td>IRS Publication 970, Tax Benefits for Education</td>
</tr>
<tr>
<td>External</td>
<td>FTB Publication 1017, Resident and Nonresident Withholding Guidelines</td>
</tr>
</tbody>
</table>

DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Manager</td>
<td>A University employee, designated by the President, Vice President, Vice Provost, or Dean who is the financial manager for the University account(s) being used for the expense. This may include the President, Vice Presidents, Vice Provosts, or Deans.</td>
</tr>
</tbody>
</table>
**FICA (Federal Insurance Contributions Act)**

FICA is a two-part employment tax consisting of social security and Medicare. Half of the payment is made by the employee and the other half by the University. Employees normally pay 6.2% of their wages for social security, up to the wage limit, and 1.45% of their total covered wages for Medicare. The University also pays 6.2% and 1.45% for social security and Medicare, respectively. An additional .09% in Medicare tax is withheld from an employee’s wages in excess of $200,000. The additional .09%, however, applies only to employees, not the University.

**Scholarship or Fellowship**

An amount paid to, or on behalf of, an individual for the primary purpose of assisting the person in the pursuit of his or her studies or research. Such amounts include grants, waivers, and other forms of gift aid that typically do not have to be repaid by the recipient.

**ADDITIONAL CONTACTS**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Contact</th>
<th>Phone</th>
<th>Email/URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting &amp; Business Services</td>
<td>Frank Wasilewski</td>
<td>415.422.2402</td>
<td><a href="mailto:fmwasilewski@usfca.edu">fmwasilewski@usfca.edu</a></td>
</tr>
<tr>
<td>Tax Compliance</td>
<td>Dominic Daher</td>
<td>415.422.5124</td>
<td><a href="mailto:dldaher@usfca.edu">dldaher@usfca.edu</a></td>
</tr>
<tr>
<td>Disbursement Services</td>
<td>Dennis Miller</td>
<td>415.422.2102</td>
<td><a href="mailto:millerd@usfca.edu">millerd@usfca.edu</a></td>
</tr>
</tbody>
</table>

**FORMS**

<table>
<thead>
<tr>
<th>Form</th>
<th>Use</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td><strong>Out-of-State Income Tax Withholding Form</strong></td>
<td>Used by employees to request withholding in another state</td>
<td>Human Resources</td>
</tr>
<tr>
<td><strong>Form 592-B</strong></td>
<td>Used to report California withholding on nonwage payments made to nonresidents</td>
<td>FTB</td>
</tr>
<tr>
<td><strong>Form 1098-T</strong></td>
<td>Used to report gift aid and expenses to assist taxpayers in claiming educational credits and deductions</td>
<td>IRS</td>
</tr>
</tbody>
</table>
Form 1099-MISC Used to report certain income payments of $600 or more made to non-employees IRS

Form W-2 Used to report wage payments made to employees IRS

RESPONSIBILITIES

Department/Business Manager
- Responsible for ensuring payments made to its employees, students, and other individuals are made in accordance with this Policy and related University policies.

Accounting and Business Services
- Processes all AP, payroll, and student payments made by the University in accordance with applicable federal, state, and local tax laws and regulations.
- Prepares Forms W-2 and 1099-MISC for distribution to payees and the IRS.
- Reviews any requests for an exception to this Policy in consultation with the Director of Internal Audit and Tax Compliance.

Office of Internal Audit and Tax Compliance
- Prepares Forms 592-B for distribution to California nonresident payees and the FTB.
- Administers the GLACIER Nonresident Alien Tax Compliance System and prepares Forms 1042-S for distribution to payees and the IRS.
- Determines whether an employee working in a state outside of California is subject to income tax withholding in that state.
- Reviews any requests for an exception to this Policy in consultation with the Associate Vice President for Accounting and Business Services.
- Determines whether a worker should be classified as an employee or an independent contractor.

One Stop Enrollment and Financial Services
- Prepares Forms 1098-T for distribution to students and the IRS.

President, Vice Presidents, Vice Provosts, and Deans
- Ensures that departments within his or her division are in compliance with this Policy and related University policies.
FREQUENTLY ASKED QUESTIONS

(None)

REVISION HISTORY

- 05/12/2015 - Updated to include hyperlinks and references to the Independent Contractor Policy, Nonresident Alien Policy, and Student Employment Policy.
- 10/01/2013 - First publication of Policy.

APPENDICES

Appendix A - Tax Treatment of Payments Made to Individuals

Appendix B - Scholarship and Fellowship Recipients, General Tax Information
PROCEDURES

- Authorization
- AP System Payments
- Payroll System Payments
- Student System Payments
- Payments to Foreign Individuals
- Violations

AUTHORIZATION

Payments made by the University are subject to reporting and withholding as determined by applicable federal and state tax laws and regulations. Departments are not authorized to implement procedures that deviate from those set forth in this Policy. Any exception to this Policy requires approval by both the Associate Vice President for Accounting and Business Services and the Director of Internal Audit and Tax Compliance.

RETURN TO TOP

AP SYSTEM PAYMENTS

This section summarizes the withholding and reporting requirements for payments made to individuals through the AP System.

Payments to Non-Employees

Compensation-related payments made to a non-employee for performing independent personal services are reportable on IRS Form 1099-MISC if the total payments made to the individual are $600 or more for the calendar year. Such payments include consulting, speaking and performance fees, honoraria, and similar service payments. Payments for non-cash gifts, prizes, and awards presented to a non-employee and payments of other income made to a non-employee of at least $600 are also reportable on Form 1099-MISC. These payments are not subject to withholding provided that the individual has furnished ABS with a valid taxpayer identification number (TIN), e.g., social security number. If a payee fails to provide his or her TIN, or the TIN provided is incorrect, then the payment will be subject to backup withholding at the rates of 28% (federal) and 7% (California).

Non-wage service payments made to nonresidents of California are reportable on FTB Form 592-B and are subject to withholding of 7% if the total payments made to the individual are more than $1,500 for the calendar year. See FTB Publication 1017, Resident and Nonresident Withholding Guidelines.
Payments to Employees
Any taxable payment made to an employee or on behalf of an employee is subject to withholding and reporting as provided below. In general, such payments should be paid through the payroll system rather than the AP system. However, if it would not be possible to make a payment through payroll, the details of the payment must be provided to Payroll Services in a timely manner so that applicable taxes may be withheld from the employee’s regular wages.

PAYROLL SYSTEM PAYMENTS

All salary and wage payments made to an employee are reportable on IRS Form W-2 and are subject to withholding of applicable income and FICA taxes. Fringe benefits provided to an employee (or a member of the employee’s family) are also taxable, unless specifically excluded from an employee’s wages under the Internal Revenue Code. Taxable benefits include, but are not limited to, certain travel and moving expense reimbursements, group-term life insurance coverage in excess of $50,000, tuition remission in excess of $5,250 for graduate-level courses that are not job-related, etc.

For additional information regarding employee wage and fringe benefit payments, see IRS Publication 15-B, Employer’s Tax Guide to Fringe Benefits.

Employees Working Out-of-State
The Out-of-State Income Tax Withholding Form must be completed whenever an employee is hired or assigned to work in a state other than California. The completed form should be submitted by the employee to the Office of Internal Audit and Tax Compliance at least ten (10) business days before the out-of-state assignment begins. Based on the information supplied on the form, Internal Audit and Tax Compliance will determine whether the employee will be subject to withholding in the state where he or she will be working.

STUDENT SYSTEM PAYMENTS

This section summarizes the withholding and reporting requirements applicable to payments made to students for scholarships, fellowships, and other forms of gift aid. Payments made to or on behalf of a student for such financial assistance, while initiated in the student system, are disbursed through the AP system. All student assistance payments must originate in the student system so that they are correctly reported on IRS Form 1098-T, which is provided to students for purposes of claiming the federal education tax credits and deductions.
Non-Taxable Scholarships and Fellowships
A scholarship or fellowship is not taxable to the extent that the funds provided under the grant are used for “qualified” expenses and there is no expectation that the recipient perform any substantial services (i.e., either past, present, or future services) in return for receiving the grant. The portion of a grant related to the performance of services represents wages, which must be paid to the recipient through the payroll system. See Student Employment Policy.

Assuming that a scholarship or fellowship includes no service requirement, any funds used for qualified expenses are not taxable. Qualified expenses include required tuition, fees, books, supplies, equipment, and other mandatory fees for classes or enrollment. The amount used to pay required health insurance premiums in order for a student to be enrolled is also considered a qualified expense and is not taxable.

Taxable Scholarships and Fellowships
Any portion of a scholarship or fellowship used to pay for “nonqualified” expenses such as room and board, travel, moving, and other living expenses is taxable to the recipient. This would be the case regardless of how the funds were paid, i.e., directly to the student or on his or her behalf. See IRS Publication 970, Tax Benefits for Education.

The taxable portion of a non-service scholarship or fellowship provided to a U.S. citizen or resident alien is not subject to withholding. The IRS recommends, however, that colleges and universities inform students in writing if part of their scholarship or fellowship is taxable. Appendix B includes a summary of the general tax rules governing scholarship and fellowship grants, including the Form 1098-T reporting requirements, which may be provided to students.

PAYMENTS TO FOREIGN INDIVIDUALS
The University uses the GLACIER Nonresident Alien Tax Compliance System to determine the federal tax treatment of payments made to its foreign students, employees, and other visitors who are temporarily in the United States to work or study on campus. Income paid to a nonresident alien and the withholding on such income is reportable on IRS Form 1042-S. For additional information, see Nonresident Alien Payments Policy.

VIOLATIONS
A violation of any portion of this Policy may result in disciplinary action, up to and including termination of employment and/or legal action.
# Policy on Tax Treatment of Payments Made to Individuals

## Appendix A

### ACCOUNTS PAYABLE

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Income Taxable?</th>
<th>Wages (withhold income and FICA taxes)?</th>
<th>Reporting Requirement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cell phone and tablet computer reimbursements⁴</td>
<td>No</td>
<td>No</td>
<td>1099-MISC, Box 7, Nonemployee compensation</td>
</tr>
<tr>
<td>Honorarium payments⁵</td>
<td>Yes</td>
<td>No</td>
<td>1099-MISC, Box 7, Nonemployee compensation</td>
</tr>
<tr>
<td>Human subject payments</td>
<td>Yes</td>
<td>No</td>
<td>1099-MISC, Box 3, Other income</td>
</tr>
<tr>
<td>Independent contractor payments⁶</td>
<td>Yes</td>
<td>No</td>
<td>1099-MICS, Box 7, Non-employee compensation</td>
</tr>
<tr>
<td>Life insurance coverage over $50,000</td>
<td>Yes</td>
<td>Yes</td>
<td>W-2</td>
</tr>
<tr>
<td>Moving reimbursements - removal of household effects, transportation, lodging, etc.⁷</td>
<td>No</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td>Moving reimbursements - meals, temporary housing, house hunting, etc.</td>
<td>Yes</td>
<td>Yes</td>
<td>W-2</td>
</tr>
<tr>
<td>Non-cash gifts and awards⁸</td>
<td>No</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Prizes and awards - cash</td>
<td>Yes</td>
<td>No</td>
<td>1099-MISC, Box 3, Other income</td>
</tr>
<tr>
<td>Travel reimbursements⁹</td>
<td>No</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Travel reimbursements - employee trips of more than 1 year</td>
<td>Yes</td>
<td>Yes</td>
<td>W-2</td>
</tr>
<tr>
<td>Travel reimbursements - pre-employment interview</td>
<td>No</td>
<td>No</td>
<td>None</td>
</tr>
<tr>
<td>Travel advances - excess amount unrecovered</td>
<td>Yes</td>
<td>Yes</td>
<td>W-2</td>
</tr>
<tr>
<td>Travel allotments - NCAA</td>
<td>No</td>
<td>No</td>
<td>None</td>
</tr>
</tbody>
</table>

### PAYROLL

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Income Taxable?</th>
<th>Wages (withhold income and FICA taxes)?</th>
<th>Reporting Requirement?</th>
</tr>
</thead>
</table>

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⁴ Cell phone and tablet computer reimbursements
⁵ Honorarium payments
⁶ Independent contractor payments
⁷ Moving reimbursements - removal of household effects, transportation, lodging, etc.
⁸ Non-cash gifts and awards
⁹ Travel reimbursements
¹⁰ Travel reimbursements - employee trips of more than 1 year
¹¹ Travel reimbursements - pre-employment interview
¹² Travel advances - excess amount unrecovered
¹³ Travel allotments - NCAA
Wages, including overload, overtime, stipend, and other pay | Yes | Yes | W-2

Faculty rental subsidy | Yes | Yes | W-2

Merit, bonus, and similar cash awards | Yes | Yes | W-2

Sabbatical pay | Yes | Yes | W-2

Severance pay | Yes | Yes | W-2

Training related to current job | No | No | None

Uniform allowance | Yes | Yes | W-2

Vacation (including final vacation pay), sick leave, and holiday pay | Yes | Yes | W-2

**STUDENT SYSTEM**

| Payment Type | Income Taxable? | Wages (withhold income and FICA taxes)? | Reporting Requirement?
|--------------|----------------|----------------------------------------|---------------------|

**Scholarships and Fellowships**

Tuition, fees, books, and required expenses

| Yes | No | No | 1098-T, Box 2, Amounts billed for qualified tuition and related expenses

Expenses in excess of required expenses (e.g., room, board, travel, stipends, etc.)

| No | No | Payments for such expenses are not reportable on the 1099-MISC but must be included in Box 5, Scholarships or grants, on the 1098-T. See Appendix B.

Scholarship or fellowship requiring the performance of services

| Yes | Yes | The service portion of the award must be paid through payroll and reported on the W-2.

**Employee Tuition Remission**

Undergraduate courses

| No | No | None

Graduate courses, job-related

| No | No | None

Graduate courses provided to graduate teaching and research assistants

| No | No | None
Graduate courses, not job-related, up to $5,250 per year

Graduate courses, not job-related, exceeding $5,250 per year

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1. Taxable payments made to a non-employee totaling $600 or more for the calendar year are reportable on Form 1099-MISC.

Non-wage service payments made to nonresidents of California are reportable on FTB Form 592-B and are subject to withholding of 7% if the total payments made to the individual are more than $1,500 for the calendar year. Any taxable payment made to an employee through AP would be reported on the employee’s Form W-2, subject to withholding of applicable income and FICA taxes.

2. Payments made to nonresident aliens are subject to separate federal income tax withholding and reporting rules. See Nonresident Alien Payments Policy (under construction).

3. Under the combined federal and state electronic filing program, the IRS forwards Form 1099-MISC information filed with it to the participating states, including California.

4. See Electronic Communication Policy

5. See Honorarium Payments Policy

6. See Independent Contractor Policy (under construction)

7. See Moving Reimbursement Policy

8. See Non-Cash Gifts, Awards and Incentives Policy

9. See documentation and reporting requirements set forth in the Travel and Entertainment Policy

10. Wages paid to an employee who is hired or assigned to work out-of-state may be subject to withholding in that state. See Out-of-State Income Tax Withholding Form and instructions.

11. Payments for both graduate and undergraduate courses are tax-free, including courses taken in a prior academic term or calendar year.

12. See Student Employment Policy

13. For the tax treatment of tuition remission provided to a spouse, domestic partner, or other dependent, see the Application for Tuition Remission.

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Scholarship and Fellowship Recipients General Tax Information

The following information is intended for University of San Francisco students (U.S. citizens and residents) who are recipients of a scholarship or fellowship grant. This information includes the general tax rules published by the Internal Revenue Service (IRS) regarding such grants and applies regardless of whether your award is funded by the University or by another source.

The University does not provide tax advice; for additional information, you should contact your personal tax advisor or consult the IRS publications referenced below.

Under IRS regulations, the term “scholarship or fellowship” includes grants, waivers, and other forms of gift aid, which typically do not need to be repaid by the recipient of the aid. In some cases, the scholarship or fellowship funds are paid directly to you, while in other cases they are credited to your University student account. Whether the scholarship or fellowship payment is paid to you directly or to the University on your behalf, for tax purposes, the payment is treated as made to you and is subject to the tax rules discussed below.

Is my scholarship or fellowship taxable? You do not have to pay taxes on a scholarship or fellowship to the extent the funds are used for required tuition, fees, books, supplies, equipment, or other mandatory fees for classes or enrollment. The amount of health insurance premiums you pay to the University in order to be enrolled is also considered a required fee. To the extent you use scholarship or fellowship funds to pay for these types of required fees and expenses, the funds should be excluded from your taxable income.

What portion of my scholarship or fellowship would be taxable? Any portion of a scholarship or fellowship used to pay for room and board, travel, moving, and other living expenses should be included in your taxable income for the year. Again, this would be the case regardless of how the funds were paid, i.e., directly to you or on your behalf. Therefore, you may have to pay income taxes on the amount of your scholarship or fellowship used for such expenses. For more information on the tax treatment of scholarships and fellowships, see IRS Publication 970, Tax Benefits for Education.

How will I be taxed on the portion of my scholarship or fellowship that is not tax-free? IRS
regulations do not permit the University to withhold income taxes on the taxable portion of a scholarship or fellowship. Therefore, depending upon the taxable amount of your award, you may need to make estimated income tax payments prior to filing your tax return. For more information on the rules pertaining to estimated tax payments, see IRS Publication 505, Tax Withholding and Estimated Tax.

**Am I required to maintain any records related to my scholarship or fellowship?** Yes. Regardless of how the scholarship and fellowship funds are paid to you (i.e., either directly or on your behalf), you are required to maintain records showing that you used all or a portion of your scholarship or fellowship funds for qualifying (i.e., nontaxable) expenses. You should retain receipts and other documents that show the total amount of such expenses. You may also use your University online student billing records for this purpose. In addition, you may receive an annual tax statement from the University (see below).

**FORM 1098-T, TUITION STATEMENT**

The University is required to annually file a Form 1098-T information return with the IRS for most students. If a return is filed, the University must also provide a copy of the return to the student showing the information reported. Information reported on the Form 1098-T is intended to assist taxpayers in calculating the amount of the higher education tax credits or deductions they may be eligible to claim.

**What information is reported on the Form 1098-T?** Amounts are reported in Box 2 and Box 5 of the Form 1098-T. Box 2 represents the total Qualified Tuition and Related Expenses charged or billed to your student account for the calendar year. This amount could be different than what you actually paid for the year. Box 5 represents total Scholarships and Grants, including fellowships, from all known sources, that the University processed on your behalf. The total amount reported for these types of awards is without regard to whether any portion of an award may be taxable. You should make the determination regarding whether your scholarship or fellowship is taxable based upon your individual facts, irrespective of how the University may have applied your grant funds to the amounts you owed the University.

**Are any educational loans I received reported on the 1098-T?** No. Amounts reported on the Form 1098-T do not include any loans you may have received in connection with your enrollment at the University.

For more information about the education tax credits and deductions, see IRS Publication 970.