Topics

- **Welcome & General Announcement**
  - Susan Lin, Director of Financial Management and Controller

- **Chart of Accounts clean-up Project**
  - Susan Lin, Director of Financial Management and Controller

- **Accounts Receivable Management**
  - Susan Lin, Director of Financial Management and Controller

- **Office of Naval Research Equipment Management Audit Updates**
  - Karen Morimoto, Director of General Accounting and Loan Collection

- **Federal Income Tax Treatment Guide For scholarship and fellowship**
  - Ken Lum, Director of Tax Services
Welcome

- General Announcements
  - Fiscal Services Office will be coming out to the various units for a site visit to meet with the business offices to get feedback on how KFS and eThority.
  - KFS will be sending reminder emails to users if they have documents in their action list that have been awaiting their approval for 30 days or longer. These emails will be sent weekly on Monday mornings effective 10/20/14.
Financial Management Office

Chart of Accounts Clean-up Project

Susan Lin
Director of Financial Management and Controller
Points to Cover

• Why Should We Do It
• Scope of the Project
• Current Status of the Project
• Next Steps
Why Should We Do It

- Reduce administrative workload from managing
  - 50,000+ accounts codes
  - 700+ expenditure object codes
  - 100+ function codes
- Improve accurate and consistent reporting
  - Efficiency measures/cost of education studies
  - Integrated Postsecondary Education Data System (IPEDS)
  - Cost allocation for facilities and administrative proposals
  - Financial status report for the Board of Regents
- Help training financial personnel on how to code financial transactions properly
Scope of the Project

- Close out expired account codes
- Close out “unused” account codes
- Streamline or reduce number of object codes
- Re-define the purpose of function codes and replace the existing ones
Relationship of Account Code, Object Code, and Function Code

Account Code + Object Code = Financial Transaction

- Which organization does the transaction belong to?
- Where does the money come from?
- What is the cost center or unit responsible for the transactions?
- Which activity is the transaction tracking?
- What is the function for the transaction?
  - What is the accounting nature of classification? e.g. expense, revenue, accts receivable

Function Code
 Accounts Codes
Account Code Clean-up Status

- **KFS Stats as of January 2014**
  1. # Active account codes (i.e., closed flag = No) : 50,102
  2. Expired account codes prior to 7/1/2013 : 11,687 (includes #3)
  3. Expired accounts codes prior to 7/1/2012 : 9,080
  4. Expired accounts codes prior to 7/1/2013 with balances : 819
  5. Converted accounts with no activity : 22,688
Account Code Clean-up Status

- De-activated or closed out 20,000+ account codes that were converted to KFS from FMIS with no activity.
- Working to identify...
  1. Account codes that expired prior 7/2012
  2. Account codes that were converted with a minimal balance and/or no activity since going live with KFS
Object Codes
Object Code Clean-up Status

- Priority placed on 700+ expenditure object codes
  - Reviewed 27 object codes relating to grant-in-kind payments
    - Review Process
      - Do we have another ways to identify resident and non-resident reporting (1099-MISC vs. 1042-S) without using object code?
      - Who needs what level of details to track type of grant-in-kind payments?
      - What is the difference between stipend, fellowship and scholarship?
  - Determined only 6 object codes needed
    - 2014 Calendar will be a transition year
      - Tax reporting will continue as before
      - The revised object codes should be used
      - The old object codes are still valid but will be deactivated in January 2015
New Object Codes for Grant-in-Kind Payments

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>6500</td>
<td>Scholarship/Fellowship</td>
</tr>
<tr>
<td>6531</td>
<td>Scholarship/Fellowship (Reportable)</td>
</tr>
<tr>
<td>6540</td>
<td>Scholarship/Fellowship/Travel</td>
</tr>
<tr>
<td>6541</td>
<td>Scholarship/Fellowship/Travel (Reportable)</td>
</tr>
<tr>
<td>6570</td>
<td>Scholarship/Fellowship-Postdoc</td>
</tr>
<tr>
<td>6581</td>
<td>Scholarship/Fellowship-Postdoc (Reportable)</td>
</tr>
</tbody>
</table>
Travel Related Object Codes

• Reviewed 63 travel related object codes
  • Do we have another way to identify resident and non-resident reporting (1099-MISC vs. 1042-S) without using object code?
  • Who needs what level of details to track type of expenditure?
  • Can we leverage the existing business process to track and report taxable income for employees’ reimbursement without using object code?

• Reduce to about 20 travel related object codes (to be finalized)
  • Continue to track
    • In-state, out-of-state, international travels
    • Car mileage, Transportation, per diem, other travel expenditures, travel advance, subsidized parking, and relocation expense.
Next Groups of Object Codes to Review

- Payroll related object codes
- Non-payroll object codes
- Object codes with no balances
Function Codes
Challenges with Function Codes

- Currently there is no APM defining the purpose or usage of Function codes
- We have 100+ Function codes
- Chart Manager assigns a Function code attribute to an Account. And the Function code is not transparent to Account users. Therefore the user may charge expenditures, for example, for instruction - departmental research to Account that has Academic Support Function code.
- Consequently expenses were categorized into the “wrong” bucket, which caused issues for the following reports:
  - Integrated Postsecondary Education Data System (IPEDS)
  - Management and Planning Support (MAPS) expenditure reports
  - Cost of Education studies
  - Cost allocation for facilities and administrative proposals
  - Others.
Function Code (cont.)

- Function code drives number of Account codes that need to be created.
  - For example, one project/funding may need to create five Account codes when expenditures need to be categorized by each function code

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Function Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Instruction – Departmental Research</td>
</tr>
<tr>
<td>2</td>
<td>Instruction – General Academic</td>
</tr>
<tr>
<td>3</td>
<td>Instruction, Sponsored Instruction</td>
</tr>
<tr>
<td>4</td>
<td>Academic support, Computing Support</td>
</tr>
<tr>
<td>5</td>
<td>Academic Support, Academic Admin</td>
</tr>
</tbody>
</table>
Recommendations

- Simplify, simplify, simplify.
- Look for other accounting chart fields that can serve the purpose
- Provide clear definition of each function code.
- Provide training to chart managers and fiscal administrators
Function Code Definition

• **Purpose/Use:**
  - A department or project might perform multiple functions. Since Function Code is an attribute that is attached to Account Code, Account code has to be created for each function code in order to separate expenses by the major type of spending and source of funding (e.g. Instruction, Organized & Sponsored Research, Institutional Support, etc.)
Proposed Function Code Values (15 codes)

- Instruction
- Sponsored Training
- Academic Support
- Organized & Sponsored Research
- Departmental Research
- Libraries
- Public Service
- Other Sponsored Activities
- Sponsored Research Administration
- Operation & Maintenance of Plant

- Student Services
- Institutional Support & General Administration
- Auxiliary Enterprises
- Student Financial Aid
- Capital Projects
Next Steps for Function Codes

• Conversion
  ▫ Map the existing values to the new values
    • FMO would provide a draft of mapping to schools for review and update
  ▫ Use the mapping table to update KFS account codes with the new function codes

• Timeline
  ▫ Two primary drivers for the timeline
    • Since FY 2016 is the Facilities and Administrative (F&A) base year, the changes have to be made prior to July 1, 2016.
    • However, the change of function codes will impact IPED data. In order to have comparative data for FY 2015, FY 2014 data will need to be updated. The deadline is April 2015.
Questions
Financial Management Office

UH Accounts Receivable Management

Board of Regents Audit Committee
October 15, 2014
UH Accounts Receivable APMs

- Extramural Closeout Procedures APM A8.954
  - Federal, State, and private agency contracts and grants receivable
- Accounts Receivable APM A8.651
  - Student accounts receivable
  - Other ARs arise from matters incidental to the core operations of the University
Systems for Recording AR

- Kuali Financial Systems for Extramural Funds
- Banner Student Systems for Student tuition, fees, meal plan, housing, etc.
- Invoice billings, dishonored checks, salary overpayment, and other ARs in Kuali Financial Systems.
  - However, if departments have a AR sub-system, they can obtain approval to use their own AR system to record receivables during the year. For year-end close, departments record the AR related entries in KFS.
Total Accounts Receivable

<table>
<thead>
<tr>
<th>Type of Accounts Receivable</th>
<th>FY 2014 ($ in million)</th>
<th>FY 2013 ($ in million)</th>
<th>Changes ($ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extramural Funds</td>
<td>$73.4</td>
<td>$75.9</td>
<td>-$2.5</td>
</tr>
<tr>
<td><strong>AR allowance reserve</strong></td>
<td>(1.9)</td>
<td>(2.4)</td>
<td>.5</td>
</tr>
<tr>
<td>Student Tuition, Fees, Housing, meal plan, etc.</td>
<td>21.3</td>
<td>17.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Uncollected Student financial aid refund</td>
<td>6.9</td>
<td>5.7</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>AR allowance reserve</strong></td>
<td>(22.4)</td>
<td>(18.2)</td>
<td>4.2</td>
</tr>
<tr>
<td>Other AR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manoa Athletics**</td>
<td>4.2</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Bookstore</td>
<td>1.4</td>
<td>1.3</td>
<td>.1</td>
</tr>
<tr>
<td>Others</td>
<td>6.8</td>
<td>9.7</td>
<td>-2.9</td>
</tr>
<tr>
<td><strong>AR allowance reserve</strong></td>
<td>(2.1)</td>
<td>(3.1)</td>
<td>-1.0</td>
</tr>
<tr>
<td>Total</td>
<td>$87.6</td>
<td>$89.0</td>
<td>-$1.6</td>
</tr>
</tbody>
</table>

* Allowances are established for:
  - Extramural Funds AR – based on the AR outstanding for all projects that terminated in the prior fiscal year and prior (i.e. for FY 2014, AR on terminated awards 6/30/13 and prior) and any AR that are deemed as potentially unrecoverable on awards terminating after the prior fiscal year (if any).
  - Student AR = over 180 days and others deemed to be uncollectible based on past history.

** Manoa AR increased due to the $1.7 million AKA receivable which is primarily a timing difference due to pending funds transfer from AKA.
Roles and Responsibilities

- Extramural Funds AR
  - Office of Research Services
- Banner Student AR
  - System and Campus Cashier’s Offices
- Other Non-Extramural Funds AR
  - Fiscal Administrators
    - Prepare, record, collect, and follow up on unpaid accounts
    - Review and reconcile the numbers from KFS to AR subsidiary ledgers and reports
    - Prepare and submit related accounting entries
  - FMO
    - Coordinates the recording of AR allowance reserve with departments.
    - Responsible for recording dishonored checks and notifying the department.
    - Responsible for recording salary overpayment and notifying the department
Extramural Funds Accounts Receivable

In accordance with APM A8.954, Extramural Closeout Procedures, the collection process for terminated awards include:

- Sponsors are billed monthly or per award terms and conditions
- Approximately two months after the final invoice has been submitted, ORS will notify and consult with the PI, FA, Dean/Director on any unpaid balance
- If necessary, ORS will send a collection letter to the sponsor
- Approximately two months after the first collection letter, a second letter will be issued, if necessary
- Once all collection efforts have been exhausted, ORS will notify and consult with the PI, FA and Dean/Director of the plan to forward the account to a collection agency
Extramural Funds AR over 120 Days +

<table>
<thead>
<tr>
<th></th>
<th>Total Billing for FY* ($ in thousand)</th>
<th>121+ days ($ in thousand)</th>
<th>121+days %</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>167,519</td>
<td>5,253</td>
<td>3.14%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>166,686</td>
<td>11,070</td>
<td>6.64%</td>
</tr>
<tr>
<td>FY 2012</td>
<td>148,528</td>
<td>8,801</td>
<td>5.93%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>159,258</td>
<td>6,836</td>
<td>4.29%</td>
</tr>
<tr>
<td>FY 2010</td>
<td>166,660</td>
<td>7,008</td>
<td>4.20%</td>
</tr>
</tbody>
</table>
Student Accounts Receivable

• Accounts receivable management process
  ▫ Registration Process
    • Charges are posted to student accounts when students register for courses
    • First Payment deadline approximately 1 month prior to start of semester. If payment deadline missed, student is dis-enrolled and may re-register
    • Second Payment deadline 10 days after the start of the semester
  ▫ Collection Process
    • Monthly paper notices mailed
    • Monthly emails sent
    • Banner system places holds monthly on student account to prevent future registration, transcripts, etc.
    • Monthly file sent to State Tax Dept. for income tax setoff
    • Annual assignment to external collection agency
### Accounts Receivable by Campus from Banner Student System

$ in thousand

<table>
<thead>
<tr>
<th>Campus</th>
<th>FY 2013 &amp; Prior</th>
<th>FY 2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hawaii</td>
<td>908</td>
<td>$352</td>
<td>1,260</td>
</tr>
<tr>
<td>Honolulu</td>
<td>676</td>
<td>464</td>
<td>1,140</td>
</tr>
<tr>
<td>Kapiolani</td>
<td>1,229</td>
<td>1,156</td>
<td>2,385</td>
</tr>
<tr>
<td>Kauai</td>
<td>180</td>
<td>121</td>
<td>301</td>
</tr>
<tr>
<td>Leeward</td>
<td>1,037</td>
<td>1,467</td>
<td>2,504</td>
</tr>
<tr>
<td>Maui</td>
<td>817</td>
<td>370</td>
<td>1,187</td>
</tr>
<tr>
<td>Windward</td>
<td>432</td>
<td>375</td>
<td>807</td>
</tr>
<tr>
<td>Manoa Outreach</td>
<td>677</td>
<td>4,099</td>
<td>4,776</td>
</tr>
<tr>
<td>Manoa</td>
<td>7,880</td>
<td>3,489</td>
<td>11,369</td>
</tr>
<tr>
<td>Hilo</td>
<td>1,013</td>
<td>729</td>
<td>1,742</td>
</tr>
<tr>
<td>West Oahu</td>
<td>200</td>
<td>509</td>
<td>709</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,049</strong></td>
<td><strong>13,131</strong>*</td>
<td><strong>28,180</strong></td>
</tr>
</tbody>
</table>

* FY 2014 AR Balance as of 10/7/2014 decreased to $7 million after Fall 2014 student payments.
Student Charges vs. Total AR

<table>
<thead>
<tr>
<th></th>
<th>Total Student Charges ($ in thousand)</th>
<th>Total AR ($ in thousand)</th>
<th>% AR over Total Student Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014</td>
<td>409,279</td>
<td>13,333</td>
<td>3.26%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>389,104</td>
<td>10,128</td>
<td>2.60%</td>
</tr>
<tr>
<td>FY 2012</td>
<td>371,442</td>
<td>9,899</td>
<td>2.67%</td>
</tr>
<tr>
<td>FY 2011</td>
<td>340,613</td>
<td>9,717</td>
<td>2.85%</td>
</tr>
</tbody>
</table>
Increased AR for FY 2014 was attributable to the following:

- The increased tuition rate 5% contributed about $1.1 million AR increase.
- Although unpaid AR has been fully reserved for audited financial statement purpose, it has not been written off for 10 years. Average of unpaid AR per year is about $2 million.
Outstanding Student Financial Aid in AR

<table>
<thead>
<tr>
<th></th>
<th>Annual Total Uncollected AR due to Student Aid ($ in thousands)</th>
<th>Annual Percent of Increase</th>
<th>Cumulative Total Uncollected AR due to Student Aid ($ in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2014</td>
<td>1,386</td>
<td>11.15%</td>
<td>6,951</td>
</tr>
<tr>
<td>FY2013</td>
<td>1,247</td>
<td>20.13%</td>
<td>5,565</td>
</tr>
<tr>
<td>FY2012</td>
<td>1,038</td>
<td>n/a</td>
<td>4,318</td>
</tr>
<tr>
<td>FY2011</td>
<td>n/a</td>
<td>n/a</td>
<td>3,280</td>
</tr>
</tbody>
</table>

- Increased tuition rates, as well as increases in other costs of attendance, contribute to the increase in AR.
- Data in regards to return of title IV calculation for student portions of the amounts returned to the PELL and FSEOG programs, the data is not readily available. However, a quick estimation, based on the report using data in Banner for 8 of the 10 campuses, show an approximate return of student portion of $30,000 for FY2014. (The other two campuses do not use Banner to calculate the return amounts, so the amounts are not available.) This $30,000 is not material compared to the total refunds of $1.386 million for FY2014.
- Students are not allowed to register in subsequent semesters until amounts owing are paid.
Next Steps for Student AR Management

• Work with Office of General Counsel to write-off uncollectible accounts for:
  ▫ Students who are deceased
  ▫ Student whose debts have been discharged in bankruptcy court
  ▫ Students who cannot be located
  ▫ Accounts where collection efforts have been exhausted (internal collection process, external collection agency process)

• Work with Student Affairs and Academic Affairs to review business processes to get the students committed to pay (Currently students can register and attend classes without payment.)
Next Steps for Student AR Management

• Step up collection efforts
  ▫ Send additional emails informing students of tuition payment deadlines
  ▫ Send additional emails informing students of past due amounts
  ▫ Consider sending delinquent accounts to first collection agency sooner
  ▫ Consider sending delinquent accounts for second placement with external collection agency
Manoa Athletics Accounts Receivable

- Manoa Athletics tracks and manages its own accounts receivable.
  - Total $4.18 million as of 6/30/2014
    - $1.70 million - AKA donation
    - $.85 million - NCAA annual distribution
    - $.62 million - TV and Radio April-June 2014 rights fees
    - $.50 million - Corporate partner agreement receivables
    - $.51 million - Other receivables

- AR allowance reserve is $280K

- Athletics is audited annually by independent external auditors
Questions
Financial Management Office

ONR Equipment Management Audit Update and Recognition of Deferred Revenues

Presented by
Karen Morimoto, Director of General Accounting and Loan Collection
UH Property Control System Analysis (PCSA)

• Conducted by the Office of Naval Research (ONR) during the week of September 08-12, 2014. Two ONR representatives were on site.

• Required by the Federal Acquisition Regulation (FAR) Part 45 and 52.245-1

• Objective of the PCSA is to verify the ability of the University’s property control procedures and system to protect, preserve, account for and control Government property in accordance with applicable regulations and award provisions.
Compliance with 10 processes identified in FAR 52.245-1(f)(3)

- Acquisition
- Receiving
- Records
- Physical Inventory
- Subcontractor control
- Reports
- Relief of stewardship responsibility
- Utilization
- Maintenance
- Closeout/disposition of Government property
Key Items Reviewed

- University Government Property Manual
- APMs pertinent to the control of property
- Copies of audit reports and findings
- Listing of all DoD and NASA titled Government property under administrative cognizance of ONR
- A copy of the University’s last completed Physical Inventory of Government property
- Listing of equipment removed from the DoD and NASA titled category between January 2013 and June 2014
Testing Performed

- Physical observation of selected assets from assets list (record to floor)
- Review of asset record from assets observed on site (floor to record)
- Review of acquisition documentation including authorization to purchase and evidence of required screening
- Review of property reports including timeliness of submissions
- Interview property custodians to assess knowledge of procedures and requirements
- Review of maintenance procedures
Preliminary Finding and Observations

- Assets not accurately represented in the system records
- Assets not properly tagged
- Asset location in system not accurate
- Assets should be retired as soon as disposition is granted by sponsor
- Temporary movement of assets needs to be documented
- Property closeout procedures must address transfer of ownership from federally-owned to UH-owned
- Self assessment procedures need to be documented
- ONR has not yet issued the final audit report
Importance of Annual Inventory

- Proper stewardship of assets
- Timely updating of asset records
- Recording of dispositions
  - Lost items
  - Damaged or obsolete items
- Impact of certification statement
- PFMO is currently updating APM’s
- If you have any procedural questions, please contact PFMO
Recognition of Deferred Revenues

- In prior years, deferred revenues only recorded in “period 13”
  - Next year fall revenues recorded when payment received in spring
  - Deferred during “period 13” because not yet earned
  - Not recognized during applicable fall term
  - Recognized during next year’s “period 13”
- To support the budget process, in September 2014, Banner deferred revenues for the fall semester were recognized
Financial Management Office

Federal Income Tax Treatment Guide For scholarship and fellowship

Presented by
Ken Lum, Director of Tax Services
About the Guide

• There has been much interest on the topic of federal income tax treatment for scholarships and fellowships so a brochure has been developed
• This brochure is intended to provide a quick and general tax treatment reference guide to the campuses
• Payments for specific situations may need to be evaluated for taxability
Federal Income and Tax Treatment Guide

- Can be downloaded from the FMO website
  - [http://www.fmo.hawaii.edu/tax/](http://www.fmo.hawaii.edu/tax/)
- Includes
  - Definition of qualified scholarship and non-qualified scholarship and fellowship
  - Tax Treatment Matrix for various types of payments
  - Object codes to use for recording the payments
  - IRS resource references
  - FAQs
Scholarships and Fellowships

• Three Primary Questions about Federal Income Tax on Scholarships and Fellowships
  ▫ Is the payment taxable?
  ▫ Is University of Hawaii required to report the payment?
  ▫ Is University of Hawaii required to withhold income tax?

• Type of Stipend Payments that are paid to study or research
  ▫ Qualified Scholarships
  ▫ Non-Qualified Scholarships and fellowships
Definition

• Qualified Scholarships
  ▫ Received by a degree candidate who attends an educational institution for tuition, fees, books, supplies, and equipment required for courses. These items must be required of all students in your course of instruction to be tax free.

• Non-Qualified Scholarships/fellowships
  ▫ Received for incidental expenses or by a degree or non-degree candidate (e.g. postdoctoral fellow)
    ❖ Room, board, living expenses
    ❖ Travel including airfare, lodging, transportation, M&IE, and conference registration fee
    ❖ Any excess amounts in qualified scholarships
    ❖ Tuition exemption (waiver), or any other financial aid paid to or on behalf of NONRESIDENT ALIENS which require the recipient to perform services past, present, or future, in exchange for the financial aid are taxable as wages, are reportable to IRS on Form W-2.
# Tax Treatment Matrix for Degree Candidates (or Taking Credit Course)

<table>
<thead>
<tr>
<th>Qualified Scholarship Tuition, Fees, Books, Supplies &amp; Equipment</th>
<th>U.S. Citizen and Resident Alien</th>
<th>Non-Resident Alien</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxable</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Reportable</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Federal Income Tax Withholding</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Qualified Scholarship and Fellowship Room and board, travel, M&amp;IE, and other items</th>
<th>U.S. Citizen and Resident</th>
<th>Non-Resident Alien</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Taxable</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Reportable</td>
<td>No</td>
<td>Yes on IRS Form 1042-S</td>
</tr>
<tr>
<td>Federal Income Tax Withholding</td>
<td>No</td>
<td>Yes - 30% income tax withholding without SSN or 14% with SSN. Exceptions: 1) A tax treaty - 0% ;2) A foreign source of grant – 0%; 3) Visa Type: F-1, J-1, M-1, Q-1, or Q-2 - 14%</td>
</tr>
<tr>
<td>Object Code/System to Process</td>
<td>Object Code-6500 or 6540/KFS DV</td>
<td>Object Code -6531 or 6541/KFS DV</td>
</tr>
</tbody>
</table>
## Tax Treatment Matrix for Non-Degree Candidates (Or Not Taking Credit Course)

<table>
<thead>
<tr>
<th>Qualified Scholarship</th>
<th>U.S. Citizen and Resident Alien</th>
<th>Non-Resident Alien</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition, Fees, Books, Supplies &amp; Equipment</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Income Taxable</strong></td>
<td><strong>Yes on IRS Form 1099-MISC</strong></td>
<td><strong>Yes on IRS Form 1042-S</strong></td>
</tr>
<tr>
<td><strong>Reportable</strong></td>
<td><strong>Yes on IRS Form 1099-MISC</strong></td>
<td><strong>Yes on IRS Form 1042-S</strong></td>
</tr>
<tr>
<td><strong>Federal Income Tax Withholding</strong></td>
<td>No</td>
<td><strong>Yes - 30% income tax withholding</strong> Exceptions: 1) A tax treaty - 0%; 2) A foreign source of grant – 0%</td>
</tr>
<tr>
<td><strong>Object Code/System to Process</strong></td>
<td>Object Code-6531,6541, or 6581/KFS DV</td>
<td>Object Code-6531,6541, or 6581/KFS DV</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Qualified Scholarship and Fellowship Room and board, travel, M&amp;IE, and other items</th>
<th>U.S. Citizen, Resident Alien</th>
<th>U.S. Citizen, Resident Alien</th>
<th>Non-Resident Alien</th>
<th>Non-Resident Alien</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment for Activities relating to Payee’s Employment</td>
<td>Personal Enrichment</td>
<td>Payment for Activities relating to Payee’s Employment</td>
<td>Personal Enrichment</td>
</tr>
<tr>
<td><strong>Income Taxable</strong></td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Reportable</strong></td>
<td>No to extent of receipts of FAR</td>
<td>Yes on IRS Form 1099-MISC</td>
<td>No to extent of receipts of FAR</td>
<td>Yes on IRS Form 1042-S</td>
</tr>
<tr>
<td><strong>Federal Income Tax Withholding</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes - 30% income tax withholding Exceptions: 1) A tax treaty - 0%; 2) A foreign source of grant – 0%</td>
</tr>
<tr>
<td><strong>Object code/System to Process</strong></td>
<td>Object Code-6500, 6540, or 6570/KFS DV</td>
<td>Object Code-6531, 6541, or 6581/KFS DV</td>
<td>Object Code-6500, 6540, or 6570/KFS DV</td>
<td>Object Code-6531,6541, or 6581/ KFS DV</td>
</tr>
</tbody>
</table>
Accountable Plan per IRS Reg. 1.62-2 (2)

• Used to exclude reimbursement for business related expense(s) from gross income for an individual.
  ▪ To be qualified, the individual must be employed by University of Hawaii or elsewhere (e.g. other universities), or
  ▪ Hired as independent contractor.
  ▪ The primary purpose of the activity must benefit UH or the employer, not the individual.
    • Payment for activities relating to payee’s employment

• Reimbursement to postdoctoral fellows, who are not employed by UH, usually doesn’t qualify under the Accountable Plan.
IRS Resources

- IRS Scholarships, Fellowships, Grants, and Tuition Reductions
- IRS Withholding Federal Income Tax on Scholarships, Fellowships, and Grants paid to Aliens
Myths and Facts

Myth: Direct payments to vendors such as hotel, travel agencies and airlines on behalf of participants are not taxable.

Fact: Travel expense payments could be income and taxable. However, if it can be justified as a business expense and meet the requirements of Accountable Plan rules, it will be not taxable.
FAQ #1

Q: State of Hawaii (government) gave a loan to a nonresident alien student to obtain teaching degree. He will not be required to pay back this loan as long as he will work in the Department of Education as a teacher for 5 years after obtaining such degree. Is this loan taxable at the time of the payment?

A: Yes, it is taxable because the State of Hawaii will forgive that loan in lieu of future services (teaching for 5 years after obtaining degree) - per IRC section 108 (f)
FAQ #2

Q: UH reimbursed postdoctoral fellow for airfare. Is the airfare taxable?

A: If the purpose of the trip is business related under the IRS Accountable Plan, the airfare is NOT taxable. Refer to IRS Reg. 1.62-2 (2)
FAQ #3

Q. UH paid hotel directly for lodging for the same postdoctoral fellow. Is the lodging taxable?

A: Similar to the previous question –
✓ If the purpose of the trip is job enrichment and the requirements for Accountable Plan are met, the lodging is NOT income and taxable.
✓ If the purpose of the trip is personal enrichment, the lodging is income.
✓ If the traveler is a non-resident alien, UH may be required to withhold income taxes, as described in the Tax Treatment Matrix.
FAQ #4

Q: We are funded by NSF to host a conference in Hawaii for doctoral-level graduates selected from a world-wide applicant pool. The meeting is only open to the invited participants to present and discuss their PhD thesis research with their peers and is usually held off campus. UH is funded to pay for the airfares, hotel accommodation, and most of the meals.

Specific Questions:
✓ Are any of these expenses taxable for US resident participants?
✓ Are any of these expenses taxable for non-US resident participants?
✓ Does the employment status of these participants have any bearing on the taxability?

A: The IRS Accountable Plan rules apply only to travel and living expense reimbursements made to employees and independent contractors. Since these postdocs are not an UH employee and is being characterized as a scholarship/fellowship grant recipient, these expenses are taxable. The same rules apply to non-US resident participants.
FAQ #5

Q. How does a payment made to a student affect the student’s financial aid package?

A. The payment impacts the student’s total financial aid package and must be disclosed to the student’s home campus financial aid office. You must notify the student’s home campus financial aid office.
FAQ #6

Q: For research surveys, the PI wants to provide gift cards to participants but the study requires anonymity. Is the WH-1 still required?

A: Yes. WH-1 is still required to determine if the participant is a US Citizen, Resident Alien, Non-Resident Alien (NRA). For NRA, gift card is discouraged because it is difficult to withhold 30% taxation from a gift card. Use a cash or check payment.
Specific Situation
Taxability on Payments for/to High School Students

UH sometimes receives federal, state, or private funding to provide services to high school students. If the service is directly paid for or to reimburse a specific student as an award, then such cost would be reportable per the IRS rules. However, if such service is open to the public, targeted demographic, or any qualified students, the cost will not be reportable. The below table provides examples of type of costs for taxability.
Table provides examples of type of costs for taxability

<table>
<thead>
<tr>
<th>Type of Costs</th>
<th>Open to Public or any qualified students</th>
<th>Specific Individual as award</th>
<th>Directly paid for or reimburse to the specific high school student</th>
<th>College Credits Earned</th>
<th>IRS Tax Reportable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutoring</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Career services</td>
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</tr>
<tr>
<td></td>
<td>No</td>
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<td>No</td>
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<tr>
<td>Counseling services</td>
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<td></td>
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<tr>
<td>Bus Transportation</td>
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</tr>
<tr>
<td></td>
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<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Summer bridge program</td>
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<td>Yes</td>
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<td>Yes</td>
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<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>
UH Payment Processing

Scholarship/Fellowship Payment to Non-UH Employees

• **For** payment made to an individual
  ✓ Process with Disbursement Voucher (DV) with Form DISB-36 in KFS;

• For payment made to third party (e.g. travel agency),
  ✓ Purchase Order to Vendors
  ✓ Vendor’s amount due shall be grossed up to include any federal tax due.
  ✓ Submit vendor invoice to Disbursing for Payment Request (PREQ) with required documentations
    • Department submits spreadsheet of participants to Disbursing
    • Information Required: Full Name, US TIN (if any), Current Mailing address, Pro Rata amount per person
    • Tax reporting information is manually entered for IRS Form 1042-S reporting at calendar year end
  ✓ **Gross Up Method**
    • Use alternative funding source to cover the tax due
    • Department absorbs the cost of the tax withholding
    • Vendor receives only amount due.
    • Example (14%): $1,000.00 x 1.16279 = $1,162.79
    • Example (30%): $1,000.00 x 1.42857 = $1,428.57
QUESTIONS?
Financial Management Office

Thank You for attending the Fiscal Administrator Meeting

Susan Lin’s Contact Information:
Email: slin@hawaii.edu
Phone: 808-956-5445