

Controller's Office

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TO: All Faculty and Staff
FROM: Rick Klee, Tax Director
DATE: December 16, 2002
RE: Employee Payments To Individuals

Background:

Occasionally in the past, a University employee has submitted a request for reimbursement that will include a payment made to another individual, or group of individuals (who may or may not be an employee or have a relationship to the University). Examples of these types of payments are: payments to University study participants, payments to an individual for rent by a faculty or staff member, payments to individual (either US citizen or nonresident alien) for expenses or services while at a conference, payments to students by a faculty member as part of a class project learning incentive, or payment by a faculty member to an assistant in a foreign country while working on a research project.

There can be a number of reporting issues in different areas. Issues that would affect all payees would include:

Nonresident Alien (NRA)-payments made to an NRA may require withholding on the payment.

IRS-in most situations, these payments will be taxable (and in many cases reportable) to the individual paid by the staff or faculty member.

Some issues would only affect payments to students. These include:

Financial Aid-these payments can impact the student aid package for the year.

NCAA-if the student is a varsity/scholarship athlete, these payments may be a violation of what the student is eligible to receive.

Policy:

University employees should not make payments directly to students or other individuals, with the intent of seeking subsequent reimbursement from the University. The University should pay these individuals directly. Requests for payments of this type should be made on an Individual Payment for Services (IPS) form (in the case of payments to a single individual), or, in the case of multiple payees for the same project, by submitting an automated Check Requisition (which has been formatted to automatically upload into the Accounts Payable) that can be uploaded for payment) which can be downloaded from the Controller's Compliance website at <http://www.nd.edu/~control/forms.html>. The completed form should be submitted to the

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Accounts Payable Compliance Specialist (Jackie Fuzey). The University reserves the right to not reimburse these payments to the University employee if this policy and the following procedures are not followed.

Procedure:

Payments for class project learning incentives:

In these situations students may participate in various types of economic competitions. These competitions are typically between teams of students in a class who make managerial and/or investment decisions that are evaluated by their faculty member and are rewarded with "points" based on their success. At the end of the various experiments, the "points" are totaled and converted into a modest sum of money. This is felt to be an effective learning tool in a number of different classes. It is important to note that the student is not participating in research on behalf of the faculty member, nor are they providing any other service to the University (which would be considered wages).

At the conclusion of the experiment, the faculty member should submit the automated Check Requisition (discussed above) that lists the student's names and social security numbers, as well as the amount that they earned from the experiment. In addition, students should sign an acknowledgement (indicating their SS# and confirming their citizenship status) that they are entitled to receive the money, and this acknowledgement, along with a short summary of the experiment, should be submitted to the Accounts Payable Compliance Specialist.

Since the payments are made to assist the students' self-learning process, they are more in the nature of a prize or award, and, while taxable, would not be reportable unless the amount exceeded \$600, regardless of whether the student is employed by the University or not. Further, based upon the above understanding, we conclude that because of the modest dollar amount given to each class participant and the class-related benefits received, this payment does not result in NCAA compliance being compromised. Finally, as long as this payment to each individual remains modest (1% or less of the value of full time undergraduate tuition or \$248 for the 2002/2003 academic year), the dollar value given to the student to participate in this experiment does not need to be reported to the Office of Financial Aid. Should the value paid to any individual exceed the 1% of tuition threshold, the Office of Financial Aid should be advised.

Other Payments:

As indicated above, there are a number of other types of payments where a University employee may make a payment to another individual. In general, these payments should be made as described in the policy above, using the Individual Payment for Services form (which can also be downloaded from the website above) or automated Check Requisition. The University's documentation rules substantiating the amount, time, use and business purpose of the expenses (basically answering the "who", "what" "when", "where" and "why" questions regarding the expense) within a reasonable time (no later than 120 days) after the expenses are incurred should be followed as well. If the payment is for services, the IPS form or Student Appointment Form (SAF) should be used as appropriate.

Payments to individuals in foreign countries:

In limited circumstances, exceptions may be made to the above-stated policy, if a University faculty or staff member is traveling in a foreign country and makes a payment to a non-US citizen. Because of the circumstances of this foreign travel, the University employee may need to pay that non-US citizen at that time in that country's currency. While it is the University's strong preference that all payments of this type are made as described above (i.e., by the University directly), if the payment is insubstantial, and other appropriate receipts and other documentation are provided (as discussed in the paragraph above) by the traveler, these payments may be allowed on an infrequent basis. The potential for these types of payments should be anticipated and discussed in advance with the faculty member's Research and Sponsored Programs accountant. Please note that this exception does not apply to payments made to other US citizens, or to nonresident aliens who are employees of the University.

Please contact the Tax Department for further clarification or with any questions (Rick Klee, 731 Grace Hall, phone 631-3288, fax 631-3138, email Klee.2@nd.edu) .