

DISBURSEMENTS: ACCOUNTING FOR AND TAX
REPORTING OF PAYMENTS MADE THROUGH THE VENDOR SYSTEM

Contents

	<u>Page</u>
I. Introduction	2
II. Procedures	2
A. Tax Coding	2
B. Payments Subject to Tax or Information Reporting	4
1. Travel	5
2. Other Payments	6
III. Responsibilities	12
IV. References	12

DISBURSEMENTS: ACCOUNTING FOR AND TAX
REPORTING OF PAYMENTS MADE THROUGH THE VENDOR SYSTEM

I. INTRODUCTION

This chapter provides information on the Federal and State tax withholding and reporting requirements for vendor system payments made to individuals by the University. Reporting of payments made to corporations generally is not required because corporate entities are fully audited.

The tax treatment of scholarship and fellowship grant payments, tuition reductions, and employee educational assistance is covered in Accounting Manual chapter [T-182-77](#), Taxes: Taxation of Scholarship and Fellowship Grants and Educational Assistance.

For additional information on Federal withholding and reporting requirements for payments made to certain classes of aliens, see Accounting Manual chapter [T-182-27](#), Taxes: Federal Taxation of Aliens.

II. PROCEDURES

A. TAX CODING

University non-payroll disbursements are generally processed on the following forms (or equivalent campus form): Form U5, Check Request; Form U5-IE, Entertainment Check Request; Form U85, Travel Expense Voucher; and vendor invoices.

An appropriate tax code must be entered on the account coding field of the disbursement document before a transaction can be processed. A check or electronic payment may be issued after the required preaudit has been conducted and appropriate approval(s) secured.

Tax codes used to indicate the tax status of vendor payments made by the University are presented below:

DISBURSEMENTS: ACCOUNTING FOR AND TAX REPORTING OF
PAYMENTS MADE THROUGH THE VENDOR SYSTEM

D-371-12.1

ACCOUNTING MANUAL

PAGE 3

<u>Codes¹</u>	<u>Type of Payment</u>
0	Payments for merchandise, services, etc., which are not subject to any additional sales or use tax and are not reportable for Federal tax purposes.
2	Payment of fees, commissions, or any other compensation to nonemployees for services rendered should be reported on a Form 1099-MISC:
**	a) In the course of a trade or business (Box 7);
**	b) Not in the course of a trade or business (Box 3).
6	Rents reportable on Form 1099-MISC.
8	Payments made to employees:
	a) Vendor check payments reportable on Form W-2;
	b) All other payments reportable on Form 1099-MISC.
A	Indicates payments for which: no tax reporting required; no lien release generated if there is any alpha in the vendor number; or numbers in the discount and lien fields, such as the social security number, ² are to be stored in the Accounts Payable Master File.
F	Royalty payments to U.S. citizens and resident aliens reportable on Form 1099-MISC.
M	Nontaxable moving expense reimbursements.

¹ Campuses may establish local codes provided payments are accounted for, and taxes reported, in accordance with the rules set forth in this chapter.

² Tax Code A payments are made under the Uniform Financial Aid System or the Berkeley campus Financial Aid System.

II. PROCEDURES (Cont.)

A. TAX CODING (Cont.)

- P Prizes and awards to nonemployees reportable on Form 1099-MISC.
- 9 Payments made to nonresident aliens (including royalties) reportable on Form 1042S.

B. PAYMENTS SUBJECT TO TAX OR INFORMATION REPORTING

The following charts detail the treatment of specific payments for tax withholding or for information reporting purposes (questions concerning such payments should be directed to the campus accounting office or to the Payroll Coordination and Tax Services unit of Financial Management, Office of the President):

DISBURSEMENTS: ACCOUNTING FOR AND TAX REPORTING OF
PAYMENTS MADE THROUGH THE VENDOR SYSTEM

D-371-12.1

ACCOUNTING MANUAL

PAGE 5

1. Travel

DESCRIPTION OF PAYMENT	TAX CODE	SUBJECT TO DEDUCTIONS FOR						UNEMP INSUR (3)	TAX ID # REQ	REPORTED ON		
		FED TAX	STATE TAX	UCRP (1)	OASDI /MED (2)	WORK COMP INSUR	FED FORM			1099 Box #	STATE FORM	
Moving Expenses (Nontaxable)(4)	M	No	No	No	No	No	No	Yes	W-2 (8)		W-2 (8)	
* Moving Expenses (Taxable)(4)	8	Yes	Yes	No	Yes	No	No	Yes	W-2		W-2	
Per Diem for Foreign Travel	0	No	No	No	No	No	No	No	-		-	
Actual Travel Expenses	0	No	No	No	No	No	No	No	-		-	
Unrecovered Travel Advances	8	Yes	Yes	No	Yes	No	No	Yes	(5) (6)		(5) (6)	
Unsubstantiated Travel Expenses	8	Yes	Yes	No	Yes	No	No	Yes	(5) (6)		(5) (6)	
Actual Travel Expenses of Spouse Accompanying Employee on University Business (12)	0	No	No	No	No	No	No	No	No		No	
Discount, Rebate, or Premium Coupons on Transportation Tickets	8	Yes	Yes	No	Yes	No	No	Yes	(5)		(5)	
Actual Travel Expenses for Pre-employment Interview (Nonemployee)	0	No	No	No	No	No	No	No	-		-	
Actual Travel Expenses of Spouse Accompanying Job Applicant on Preemployment Interview	0	No	No	No	No	No	No	No	-		-	
Actual Travel Expenses Incurred in Rendering Charitable Service to the University (Nonemployee)	0	No	No	No	No	No	No	No	-		-	
Actual Travel Expenses Incurred in Accepting a Non-Reportable Prize or Award	0	No	No	No	No	No	No	No	-		-	
Actual Travel Expenses Incurred by an Independent Contractor or Consultant	0	No	No	No	No	No	No	No	-		-	
* Unsubstantiated Travel Expenses Incurred by an Independent Contractor or Consultant	2	No (6)	No	No	No	No	No	Yes	1099 MISC	7	1099 MISC	
Subsistence Reimbursements for Travel Assignments of More Than One Year	(Refer to Accounting Manual chapter P-196-11 , Accounting for and Tax Reporting of Mandatory Deductions and Insurance Benefit Contributions)											

DISBURSEMENTS: ACCOUNTING FOR AND TAX REPORTING OF
PAYMENTS MADE THROUGH THE VENDOR SYSTEM

D-371-12.1

PAGE 6

ACCOUNTING MANUAL

II. PROCEDURES (Cont.)

B. PAYMENTS SUBJECT TO TAX OR INFORMATION REPORTING (Cont.)

2. Other Payments

DESCRIPTION OF PAYMENT	TAX CODE	SUBJECT TO DEDUCTIONS FOR						UNEMP INSUR (3)	TAX ID # REQ	REPORTED ON		
		FED TAX	STATE TAX	UCRP (1)	OASDI /MED (2)	WORK COMP INSUR	FED FORM			1099 Box #	STATE FORM	
Fees for Professional Services (Architects, Consultants, Independent Contractors, Honorariums, etc.), Citizen or Resident Alien (9)(17)	2	No	No (7)	No	No	No	No	Yes	1099 MISC	7	1099 MISC	
Fees for Professional Services - Nonresident Alien (18)	9	Yes (10)	Yes (7)	No	No	No	No	Yes	1042S	-	- (7)	
Payments to Attorneys (including corporations) for Legal Services (20)	2	No	No	No	No	No	No	Yes	1099 MISC	7,13	-	
* Visa Fees (applications and renewals, e.g., J,H,O, and TN) (21)	0	No	No	No	No	No	No	No	-	-	-	
Green Card Fees (Nontaxable) (21)	0	No	No	No	No	No	No	No	-	-	-	
Green Card Fees (Taxable) (21)	8	Yes	Yes (7)	No	No	Yes	No	Yes	- (22)	-	- (7)	
Commissions to Nonemployees (Excluding Insurance Agents)	2	No	No	No	No	No	No	Yes	1099 MISC	7	1099 MISC	
Damage Payments for Services Performed Before State Oath of Allegiance is signed (as defined in Accounting Manual chapter P-196-21)	2	No	No	No	No	No	No	Yes	1099 MISC	3	1099 MISC	
Buyout of Employment Contract (23)	8	Yes	Yes	No	Yes	Yes	Yes	Yes	W-2	-	W-2	
Lease-Purchase Agreement Payments	0	No	No	No	No	No	No	No	-	-	-	
Rent	6	No	No (15)	No	No	No	No	Yes	1099 MISC	1	1099 MISC	
Royalties-In-State or Out-of-State (19)	0	No	No (16)	No	No	No	No	No	-	-	-	
Homestays- Payments to Owner for Foreign Students Attending Classes and Living in Private Homes In The Community (25)	6							Yes	1099 MISC	1,7	1099 MISC	
Overtime Meals	0	No	No	No	No	No	No	No	-	-	-	
Prizes and Awards to Faculty (unless selected by the University) (11)	8	No	No	No	No	No	No	Yes	W-2	-	W-2	
Prizes and Awards to Employees - Cash	8	Yes	Yes	No	Yes	No	No	Yes	W-2	-	W-2	
Employee Non-cash Award Expenditures (13)	0	No	No	No	No	No	No	No	-	-	-	
Prizes and Awards to Nonemployees (11)	P	No	No	No	No	No	No	Yes	1099 MISC	3	1099 MISC	
Uniform Allowance or Reimbursement (under an accountable plan)	0	No	No	No	No	No	No	No	-	-	-	
Uniform Allowance or Reimbursement (under a non-accountable plan)	8	Yes	Yes	No	Yes	Yes	No	Yes	W-2	-	W-2	
Human Subject Payments (14)	2b	No	No	No	No	No	No	Yes	1099 MISC	3	1099 MISC	
Tail Insurance (24)	8	Yes	Yes	No	Yes	Yes	Yes	Yes	W-2	-	W-2	
Vendor System Settlement Payments	(Refer to Accounting Manual chapter P-196-76, Payroll: Settlement Payments, Appendix IV.)											

*Change 2/29/09

Notes:

- * 1. Deductions for retirement apply only to employees who are contributing members of a defined benefit retirement system, including UCRS, PERS, etc.
2. Deductions for OASDI and/or Medicare apply only to those employees who meet the eligibility requirements for OASDI and/or Medicare (see Accounting Manual chapter [P-196-30](#), Payroll: OASDI and Medicare Contributions).
3. Unemployment insurance benefits are applicable only to covered employees (see Accounting Manual chapter [P-196-77.5](#), Payroll: Unemployment Insurance).
4. Deductible moving expenses reimbursed by an employer in connection with moving to a new location for employment-related reasons are not includible in an employee's gross income. Such expenses include the reasonable costs of moving household goods and personal effects to the new residence and travel and lodging costs incurred during the move. If an automobile is used in making the move, the employee may be reimbursed for actual out-of-pocket expenses incurred (gasoline, repairs, etc.) or the current standard mileage allowance which may be found in Business and Finance Bulletin [G-13](#), Policy and Regulations Governing Moving and Relocation. Under the distance test for moving expenses to qualify for a deduction, the new work location must be at least 50 miles further from the taxpayer's former home than the old place of work was from the former home. The following expenses are not deductible: meal expenses incurred while traveling or while living in temporary quarters, expenses incurred while searching for a new home, the costs of selling the old residence (or settling a lease) or purchasing (or acquiring a lease on) a new home, or for temporary lodging after obtaining employment. If any of these expenses are reimbursed by the University, they must be treated as taxable income subject to withholding. (Refer to Business & Finance Bulletin [G-13](#), for more information.)

II. PROCEDURES (Cont.)
B. PAYMENTS SUBJECT TO TAX OR INFORMATION REPORTING (Cont.)
Notes: (Cont.)

5. Reportable on Form W-2 for employees or Form 1099-MISC for nonemployees. If not subject to withholding at source because of a tax treaty exemption, amount is tax coded 9 and reported on Form 1042-S.
6. Note that payments to nonresident alien nonemployees who are not holders of F1-Student and J1-Exchange Visitor visas are subject to withholding at a flat 30% rate. Holders of F1-Student, J1-Exchange, and M1-Vocational Student Visitor visas are subject to withholding based on the IRS Miscellaneous Daily Pay Scales, unless special treaty provisions are in force between the visa holder's country and the United States (see Accounting Manual chapter [T-182-27](#), Taxes: Federal Taxation of Aliens).
7. State income tax withholding at a rate of 7% is required if the total payments made to a nonresident of California equal more than \$1,500 in a calendar year. Such payments are reported on Form 592-B (see Accounting Manual chapter [D-371-77](#), Disbursements: State Tax Withholding from Nonwage Payments to Nonresidents of California).
8. Deductible moving expenses paid directly to an employee by an employer are excludable from the employee's gross income; however, such expenses must be reported as an excludable fringe benefit on the employee's Form W-2 (Box 12). These payments are identified by tax code M, or a unique tax code assigned locally. Deductible moving expenses paid directly to a third party on behalf of an employee, e.g., to a moving company, are not reported at all on Form W-2.
9. Does not include payments to corporations or payments of invoices for materials or equipment that include an incidental charge for personal services.
10. Subject to Federal income tax withholding at a rate of 30%, unless a tax treaty exemption is applicable (see IRS Publications [519](#) and [901](#), and Accounting Manual chapter [T-182-27](#)).

11. If a prize or award granted in recognition of religious, charitable, scientific, educational, artistic, literary, or civic achievement is paid through the University, the value of the prize or award must be reported as income to the recipient, unless the following three conditions are met: (1) the prize or award is transferred by the payor to a governmental unit or a tax-exempt charitable, educational, religious, etc., organization designated by the recipient, (2) the recipient was selected without any action on his or her part, and (3) the recipient will not be required to render substantial future services as a condition to receiving the prize or award. These requirements also apply to prizes or awards that are transferred to the University upon the request of the recipient. There are certain guidelines that must be followed so that the recipient is not taxed on the value of the prize or award that was transferred. IRS Rev. Proc. 87-54 provides an example of an IRS approved model form that should be filled out by the recipient before the award is actually presented.
12. Expenses for the business travel of an employee's spouse can only be paid from administrative funds provided that the spouse's presence served a bona fide University business purpose. (See Accounting Manual chapter [A-253-27](#), Administrative Fund Payments, for more information.)
13. For a description of the policy and procedures related to non-cash awards presented on behalf of the University to academic and staff employees refer to Business and Finance Bulletin [G-41](#), Employee Non-Cash Awards.
14. Includes payments made to participants in studies, blood donors, etc. Payments to employees in human subject trials are reported on the Form W-2, but are not subject to tax withholding. Human subject payments made to employees are incentive payments and not payments for services that would be prohibited under SB 1467.

II. PROCEDURES (Cont.)

B. PAYMENTS SUBJECT TO TAX OR INFORMATION REPORTING (Cont.)

Notes: (Cont.)

15. State tax withholding is required at a rate of 7% on rents or lease payments in excess of \$1,500 in a calendar year made to nonresidents for rented or leased property located in California. However, the withholding requirement only applies if the rent-payers are renting or leasing the property in the course of their business.
16. State tax withholding is only required on royalties paid to nonresidents of California for the right to use natural resources located in California, including but not limited to, oil, gas, other minerals, geothermal, and timber. Withholding is required at a rate of 7% if the total payments equal more than \$1,500 in a calendar year. Intangible income received by individuals is sourced to the state of residence and is not subject to California withholding.
17. For payments to employees see Accounting Manual chapter [P-196-11](#), Payroll: Accounting for and Tax Reporting of Mandatory Deductions and Insurance Benefit Contributions.
18. For information on the visa classifications that permit a nonresident alien to receive payments for services or reimbursement of travel and incidental expenses, see Accounting Manual chapter [T-182-27](#), Taxes: Federal Taxation of Aliens.
19. In general, the income from royalty payments transferred by an employee to a third party, e.g., another individual, a non-profit organization, or to the University for research purposes, remains taxable to the employee. However, if the employee transfers a **property interest** to a third party, i.e., all rights, title, and interest in the patent, the income becomes taxable to the transferee.

**

20. The term attorney includes a law firm or other provider of legal services. Fees of \$600 or more paid to an attorney in the course of a payer's trade or business are reportable in box 7 of Form 1099-MISC. Effective for 1998, if the attorney's fees cannot be determined, the gross proceeds paid to the attorney must be reported in box 13 with Code A. This applies also to payments made to corporations, which are no longer exempt from reporting. These rules apply whether or not the attorney is the exclusive payee (e.g., the attorney's and the claimant's names on check).
21. Accounting Manual chapter [T-182-27](#), Taxes: Federal Taxation of Aliens, contains information on the tax status of immigration-related expenses paid on behalf of existing University employees or prospective University employees and their spouses, and independent contractors. Such expenses include expenses for visa applications and renewals for J, H, O, and TN visa holders and expenses to obtain temporary or permanent residence status (i.e., obtaining a green card).
22. For U.S. residents, reportable on Form W-2 for employees or Form 1099 MISC for nonemployees. Reportable on Form 1042S for nonresident alien employees and nonemployees.
23. Contract buyout payments made to an employee's previous employer in satisfaction of the employee's contractual obligation to compensate the previous employer for early termination of an employment contract are reportable as wages on the employee's Form W-2 and subject to withholding for income and employment taxes.
24. Tail insurance premiums are paid by the University on behalf of certain physicians to provide professional liability coverage related to activities conducted in their practices prior to employment with the University. Although these premium payments are reportable and subject to withholding, they may be deductible from the physician's gross income as an ordinary and necessary business expense. Physicians should consult their own tax advisors with respect to the treatment of such premiums in their particular circumstances.

II. PROCEDURES (Cont.)

B. PAYMENTS SUBJECT TO TAX OR INFORMATION REPORTING (Cont.)

Notes: (Cont.)

- ** 25. If substantial services are rendered to the occupant (provided for the convenience of the occupant and are above and beyond that which is customarily rendered), then the payments to the property owner are considered self employment income reportable in Box 7. If only room or occupancy with no additional services is provided, then the payments to the owner are reported as real property rents in Box 1.

26.

III. RESPONSIBILITIES

It is the responsibility of the campus accounting officers to tax code payments made by the University through the vendor system, in accordance with the procedures presented in this chapter.

IV. REFERENCES

Accounting Manual Chapters:

- | | |
|--------------------------|---|
| D-224-17 | Delegation of Authority–Signature Authorization |
| D-371-35 | Disbursements: Honorarium Payments |
| D-371-62 | Disbursements: Payments for Deceased Payees Made through the Vendor System |
| D-371-77 | Disbursements: State Tax Withholding from Nonwage Payments to Nonresidents of California |
| P-196-11 | Payroll: Accounting for and Tax Reporting of Mandatory Deductions and Insurance Benefit Contributions |
| P-196-76 | Payroll: Settlement Payments |
| T-182-27 | Taxes: Federal Taxation of Aliens |

- [T-182-37](#) Taxes: Income Tax Information in the Accounting Manual
- [T-182-77](#) Taxes: Taxation of Scholarship and Fellowship Grants and Educational Assistance

Business and Finance Bulletins:

- [BUS-77](#) Independent Contractor Guidelines
- [BUS-79](#) Entertainment
- [G-13](#) Policy and Regulations Governing Moving and Relocation
- [G-28](#) Policy and Regulations Governing Travel
- [G-41](#) Employee Non-Cash Awards

Director Donald L. Alter, Memorandum to Accounting Officers on Travel Expense Reimbursements to Independent Contractors, December 12, 1984.

Manager Michael O'Neill, Memorandum to Accounting Officers on Immigration Expenses, January 11, 2000.

Outside Counsel Bertrand M. Harding, Jr. email to Manager Michael O'Neill, May 14, 2004.

Outside Counsel Bertrand M. Harding, Jr. Memorandum to Manager Michael O'Neill, February 12, 2002.

IRS Publication [463](#), Travel, Entertainment, and Gift Expenses

IRS Publication [515](#), Withholding of Tax on Nonresident Aliens and Foreign Corporations

IRS Publication [521](#), Moving Expenses

IRS Revenue Rulings:

Rev. Rul. 63-77, 1963-1 CB 177

Rev. Rul. 67-30, 1967-1 CB 9

Rev. Rul. 84-127, I.R.B. 1984-34 8

IV. REFERENCES (Cont.)

IRS Revenue Procedure:

Rev. Proc. 87-54, 1987-2, CB 669

Historical note: Original Accounting Manual chapter first published 6/15/85. Revised 12/1/85, 8/31/87, 5/1/89, 3/1/90, 8/17/90, 12/1/92, 12/30/93, 3/31/94, 9/30/94, 12/30/94, 6/30/95, 9/30/95, 6/30/96, 12/30/96, 6/30/97, 12/30/97, 6/30/98, 9/30/98, 3/31/99, 12/30/99, 6/30/03, 12/30/03, 6/30/04, 12/31/04, 6/30/05, 6/30/06, 3/31/07, 3/31/08 and 2/28/09; analyst—John Barrett