

**University of Wisconsin System
SFS Accounting Manual**

Category: Tax	Effective Date: November 29, 2017 (updated as needed)	
Task or Process: Tax Reportable Reimbursements to Employees from University Support Organizations	Revision Date: Issued Date: November 29, 2017	
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Background

Historically, employees received reimbursements from university support organizations, such as Institutional Foundations, for a variety of tax reportable reimbursements that resulted from the employer/employee relationship between the individual and the University of Wisconsin System.

On 4/18/2017, a document on the principles, best practices and requirements related to the relationship between a UW university or UW College and its primary fundraising Foundation was finalized, and contains the following requirements:

- **University Employees Must Not Directly Receive Any Payments from the Foundation for Services or Honoraria:** For accounting and tax reasons, payments to University employees for services, including any awards or honoraria, must be made through the University's payroll system. If the Foundation in a separate transaction has provided funds to the University to cover such payments, the Foundation should be acknowledged as the source of funds.
- **Reimbursements to University Employees from the Foundation:** University employee business expenses that are allowable under University rules and guidelines should preferably be reimbursed through the University's business expense systems rather than through direct reimbursement from the Foundation. The Foundation, in a separate transaction, may provide funds to the University that cover such expenses generally. If a University employee seeks direct reimbursement from a Foundation for a business expense, in accordance with University or state rules and requirements, the Foundation should ensure proper accounting for reimbursements in accordance with IRS rules.

Universities and Foundations are required to adopt guidelines that assist in determining which reimbursements are acceptable.

General Principles

1. Gross income includes both compensation for services and fringe benefits. *See* IRC Section 61(a)(1).
2. Fringe benefits provided by third parties to employees of an employer are provided in connection with an employment relationship and are thus reportable by the employer and taxable to the employee. *See* IRS CCA 200923029, 2009, *see also* 26 CFR 1.61-21(a)(1) (An employee must account for taxation of all fringe benefits regardless of the payor).

3. Certain fringe benefits are nevertheless excluded from income. Examples include costs of medical care, qualifying employer provided business expenses such as reimbursement for business associated travel, and *de minimus* benefits. See IRS publication 15-B (2014), "Employer's Tax Guide to Fringe Benefits."
4. The Wisconsin Department of Employee Trust Funds and Wisconsin Retirement System (WRS) Administration Manual regulate what qualifies as WRS-reportable earnings. WRS-reportable payments must be processed through UW System Payroll.

To summarize, foundation reimbursements for the benefit of UW employees may be taxable fringe benefits that must be reported by the UW unless these are reimbursements for normally excludable expenses. It is recommended that the operating agreement between the institution and their respective Foundation outlines a provision that the Foundation will submit monthly reporting to the institution for proper tax treatment.

Guidelines

In accordance with IRS regulations, there are a number of employee reimbursements paid by university support organizations (e.g., the UW Foundation) which must be treated as compensation to employees. These payments include, but are not limited to:

- Day trip (non-overnight) meals when a business purpose is not substantiated.
- Spousal travel reimbursements for all employees should be considered compensation to the employee unless it can be shown that the spouse has a bona fide business purpose on the trip and the employee substantiates the travel.
- Club dues to the extent used for personal benefit.
- Moving expenses (including temporary lodging) following review of IRS definition of qualified and unqualified expenses.
- House hunting expenses.
- Career related educational assistance expense reimbursements.

Examples of payments that are not appropriate to make directly to UW employees from the Foundation include, but are not limited to:

- Honoraria, service payments, or awards to employees. These should be gifted from the Foundation to the UW institution and processed through UW Payroll to the employee.
- Reimbursement of employee travel expenses to avoid documenting expenditures and processing UW System expense reimbursement forms.
- Licensing fees (e.g. CPA or attorney bar dues).
- Paying for parking tickets of employees.

Procedures

Because allowable payments to employees presumptively resulted from the employer/employee relationship between the individual and the University of Wisconsin System, the payments are appropriately processed for tax withholding and reported on the employee's Form W-2. These payments must be entered into the W-2 tax reportable bolt-on where such payments are considered by the IRS to be university wages or income to the recipients.

All source documents should be maintained at your institutional business office, including amount paid and detailed description (include the percent of personal use for club memberships).

For employees who have terminated before the FICA withholding date, the FICA (both employee and employer) amount will be charged to the fringe benefit account based on the employee's last salary funding source.