

# FINANCE DEPARTMENT

## POLICIES - Taxable Payments to Individuals

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### FEDERAL and STATE REQUIREMENTS

#### FEDERAL REQUIREMENTS

##### Form W-2 versus Form 1099-MISC

- Form W-2 is used to report income for employees.
- Form 1099-MISC is used to report income for non-employees.
- Form W-2 is used by employers to report wages, tips and other compensation paid to an employee. The form also reports the employee's income tax and Social Security taxes withheld. Form W-2 is provided by the employer to the employee and the Social Security Administration.
- A Form 1099-MISC is used by a person engaged in a trade or business to report payments made in the course of such trade or business to another person or business who is not an employee. The University reports all such income to the IRS; however, we are not required to provide Form 1099-MISC to individuals that received less than \$600.00.

#### References:

[Tax Topic 752, Form W-2 - where, when, and how to file](#)  
[Instructions for Form W-2](#)  
[Instructions for Form 1099MISC](#)

##### Form W-9 versus Form 8233

- When payment to a non-employee is taxable (income):
  - Form W-9 is required for US citizen and Resident Alien payees and must be submitted with your RFP.
  - Form 8233 is required for Nonresident Alien payees. Please see Payments to Foreign Nationals for additional policies and procedures.
- Form W-9, when completed should contain the payee's:
  - Complete name
  - Complete permanent (home) address SSN for individuals, EIN for companies, or ITIN for nonresident aliens
  - Signature

## STATE REQUIREMENTS

All income, regardless of tax status needs to be reported to New York State each quarter.

- [NYS-50: Employer's Guide to Unemployment Insurance, Wage Reporting, and Withholding Tax \[on-line\]](#). New York State Department of Taxation and Finance, accessed 18 March 2003; Internet.

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### **"Record-keeping requirements**

All employers must maintain records for each person they employ. The records must show:

1. The employee's name and social security account number, and
2. For each payroll period:
  - The beginning and ending dates,
  - The days the employee worked and the earning for each day,
  - All other payments made to the employee, including vacation pay, bonuses, dismissal pay, tips, the reasonable value of board and lodging, and **other forms of compensation**. (emphasis added)

Records must be retained for the current year and at least three preceding years and be available for inspection by the Department of Labor.

### **Reporting requirements**

Liable employers are required to report their payroll and pay unemployment insurance tax each calendar quarter, using Form NYS-45, Quarterly Combined Withholding, Wage Reporting and Unemployment Insurance Return, and Form NYS-45-ATT, if applicable. This is true whether or not wages are subject to withholding of tax or payment of tax under the Personal Income Tax Law."

## **HONORARIA, RESEARCH SUBJECT FEES, CONSULTING**

Payments for honoraria, consulting and subjects fees are considered payments for personal service and are subject to IRS reporting requirements. The University must report all such payments as income to the individual on Form 1099-MISC or Form 1042. Please see Payments to Foreign Nationals for policies and procedures regarding all payments to Nonresident Aliens.

**I. Honoraria** are one time gratuity or gift payments made to non-employees without any employment or consultant obligations. Payments to employees **MUST** be processed through PERC. Guest speakers are the most common recipients. These payments are income/compensation to the recipient and are taxable. A Form W-9 is required for US citizen and Resident Alien payees. To process honorarium payments, a Request for Payment form (F-4), with a completed Form W-9 attached, should be submitted to Accounts Payable. The request should have information regarding the service performed, purpose and dates. Be sure to include on both the RFP and the W-9 a complete permanent home address, which is needed for state and federal reporting purposes.

### **Travel associated with honoraria**

Travel expenses associated with the honoraria are not considered income. If you wish to expressly pay for the travel expenses associated with a guest speaker's visit and do not want the individual to be taxed on those expenses, they need to be documented and reimbursed separately by Accounts Payable in order to meet IRS requirements. Otherwise, the entire honoraria will be considered income and taxes may be withheld.

**II. Research subject fees** are one-time payments to individuals who volunteer to participate as experimental subjects in a research program without any regard to University academic or service requirements. To process payments to research subjects, a Request For Payment (F-4) form, with a completed Form W-9 attached, should be submitted to Accounts Payable. If the payment is less than \$300.00, a Petty Cash form (F-5) may be completed and paid through one of the University cashiering locations. When paid through Petty Cash, it is strongly recommended that Form W-9 is completed by recipients for all payments over \$50. Departments issuing volunteer payments through petty cash are responsible for keeping payment records that must be submitted to the Finance Department by December 31st so that they may be included in the University's consolidated tax reporting to the IRS.

**III. Consultants and Independent Contractors** may be engaged when the required knowledge or expertise is not available at the University. For a person to be considered an Independent Contractor, certain criteria must be met:

**A. Direction** A person acts as an independent contractor/consultant if the University directs and controls only the intended results and not the means of accomplishing them.

**B. Other Clientele** A substantial part of the consultant's/contractor's income is derived from a number of clients including the University.

**C. Unique or Professional Skills** The consultant's/contractor's work should be unique or professional in nature and require a considerable amount of independence and specialized knowledge or training acquired elsewhere. To retain the services of independent contractors/consultants, a properly authorized requisition (312) and a completed "Request for Services" form must be sent to Purchasing so that a contract and Purchase Order can be processed. All paperwork to engage a consultant must be processed prior to the time the services are required. All payments for contractual services must be processed on a University Purchase Order, Request For Payment (F-4) form will not be accepted. For more details please see [Employee/Employer Relationships vs. Independent Contractors](#).

### **GIFTS AND EMPLOYEE AWARDS**

Monetary prizes, awards, and gift certificates are considered cash equivalents and when presented to employees, including students, are considered income according to the IRS. Non-cash gifts to employees, including student employees, may also be considered income.1 Additional details are provided here. Please see Payments to Foreign Nationals for policies and procedures regarding all payments to Nonresident Aliens.

#### **I. Monetary prizes, awards and gift certificates**

Monetary prizes and awards for employees must be included in gross income according to Internal Revenue Service regulations. An individual who is granted an award in recognition of scientific, educational, religious, artistic or literary achievement (such as those awarded at commencement) must include the value of the award as income. The University must report these payments to the IRS and

withhold taxes as required. Additional cash and cash equivalents to faculty members and other employees, including students, ***must therefore be processed through PERC so that they are included on the employee's Form W-2.*** An extra compensation form must be completed in order for the employee to receive this additional money. Requests to process award payments to employees received in Accounts Payable will be returned for appropriate processing through division administration and PERC. For more information on the Personnel Policy/Procedure, please see [Additional Compensation for Salaried Professional, Administrative and Supervisory \(PAS\) Staff](#).

In lieu of cash received through Payroll an employee may wish to give gift certificates to other employees. Examples include Wegmans, Tops, Breuggers, mall and restaurant gift certificates or gift cards with a monetary value (\$5, \$10, \$20, \$100, etc.). In this situation, the employee who purchased the gift certificates and is requesting reimbursement will be responsible for the taxes associated with the reimbursement since the IRS considers gift certificates cash equivalent income. Therefore reimbursement for the purchase of gift certificates ***must be processed through PERC so that it is included on the employee's Form W-2.*** Any request received in Accounts Payable to reimburse for the purchase of gift certificates will be returned for appropriate processing through division administration and PERC.

## II. Gifts

Some gifts (e.g., movie tickets, tickets for sporting events, flowers, candy, items from the bookstore, etc.) are considered wages and therefore must be processed and reported as extra compensation to the employee. Gifts with nominal value, usually considered to be less than \$25, do not have to be reported as income. Any request received in Accounts Payable to reimburse for the purchase of gifts will be returned for appropriate processing through division administration and PERC. For more information on the Personnel Policy/Procedure, please see [Additional Compensation for Salaried Professional, Administrative and Supervisory \(PAS\) Staff](#).

The University's length-of-service awards (also known as milestone awards) are "qualified" meaning employees do not include the value of the length-of-service award in their income.

For further information, please see [Publication 525: Taxable and Nontaxable Income](#). Department of the Treasury, Internal Revenue Service, accessed 7 March 2003; Internet.

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**"Bonuses and awards.** These include prizes such as vacation trips for meeting sales goals. If the prize or award you receive is goods or services, you must include the fair market value of the goods or services in your income. Bonuses or awards you receive for outstanding work are included in your income and should be shown on your Form W-2."

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**"Employee achievement award.** If you receive tangible personal property (other than cash, a gift certificate, or an equivalent item) as an award for length-of-service or safety achievement, you generally can exclude its value from your income."

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**"Holiday gifts.** If your employer gives you a turkey, ham, or other item of nominal value at Christmas or other holidays, do not include the value of the gift in your income. However, if your employer gives you cash, a gift certificate, or a similar item that you can easily exchange for cash, you include the value of that gift as extra salary or wages regardless of the amount involved."

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**"De Minimis (Minimal) Benefits** If your employer provides you with a product or service and the cost of it is so small that it would be unreasonable for the employer to account for it, the value of the benefits such as discounts at company cafeterias, cab fares home when working overtime, and company picnics are not included in your income."