

## 2.005 Identifying the Type of Expenditure for Purposes of Determining Tax Treatment

### I. Types of Expenditures

Prior to making a payment, the type of expenditure being made must first be identified to ensure that the proper tax treatment is applied to the payment (i.e., tax withholding and/or reporting, if any, to the Internal Revenue Service (IRS)).

The following policies discuss the five (5) main types of expenditures and address how the expenditures should be treated for tax purposes:

- A. [Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals](#);
- B. [Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\)](#);
- C. [Policy 2.008 Tax Treatment of Business Expenses \(Service-Related\)](#);
- D. [Policy 2.009 Tax Treatment of Goods](#); and
- E. [Policy 2.010 Tax Treatment of Program Expenses](#).

Use the main [Types of Expenditures](#) decision tree to determine the type of expenditure being planned, then refer to the specific guidance provided in one of the above-referenced policies, and the policy's respective decision tree.<sup>1</sup>

For example, if consultant services are planned, use the main [Types of Expenditures](#) decision tree. Once you have determined the services to be a compensatory payment, refer to [Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\)](#), and its accompanying decision tree. The specific decision tree and policy should be used together when analyzing your transaction.

Additional references and guidance for payments made to either a US person or foreign person can be found in [Policy 2.011 Requirements When Paying U.S. Persons](#), and [Policy 2.012 Requirements When Paying Foreign Persons](#),<sup>2</sup> respectively.

### II. Policies for Expenditure Types

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<sup>1</sup> [Policy 2.009 Tax Treatment of Goods](#) and [Policy 2.010 Tax Treatment of Program Expenses](#) do not have decision trees.

<sup>2</sup> If the individual is a nonresident alien and will be entering the US, the ability to pay the individual may depend on his/her visa status. In these cases, it is critical that the individual have the appropriate visa. Determining the appropriate visa and ensuring that the individual obtains it need to be coordinated with the individual at the time the selection and/or invitation is made.

## **A. Tax Treatment of Non-Service Financial Assistance for Individuals**

[Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals](#) addresses the tax treatment of payments provided to/for individuals who are not required to perform services in exchange for the financial assistance they receive. Scholarships and fellowships are the most common form of Non-Service Financial Assistance (NSFA) at educational institutions, and may consist of tuition waivers as well as payments for fees, room, board, and many other types of expenses, including travel costs. In addition to scholarships and fellowships, payments to research study/clinical trial participants, prizes, awards, and other miscellaneous NSFA are also addressed.

## **B. Tax Treatment of Compensation (Services, Rents, and Royalties)**

[Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\)](#) addresses the tax treatment of compensatory payments made to individuals (non-UH/RCUH employees) and entities for services, rents, and royalties.

## **C. Tax Treatment of Business Expenses (Service-Related)**

[Policy 2.008 Tax Treatment of Business Expenses \(Service-Related\)](#) addresses the tax treatment of payments (reimbursements/allowances) made to individuals (non-UH/RCUH employees) for business expenses incurred in connection with the performance of services to RCUH or UH or to their employer. If business expenses are properly accounted for (pursuant to an accountable plan), they are excluded from income and are not required to be reported to the Internal Revenue Service (IRS). The accountable plan can only be applied to expenses incurred in connection with the performance of a service and cannot be used for expenses related to NSFA.

## **D. Tax Treatment of Goods**

[Policy 2.009 Tax Treatment of Goods](#) addresses the tax treatment of payments made for the purchase of various goods.

## **E. Tax Treatment of Program Expenses**

[Policy 2.010 Tax Treatment of Program Expenses](#) addresses the tax treatment of general program/operational expenses, which are not considered income and are not taxable to individuals.

## **III. Relevant Documents**

[Identifying the Type of Expenditure for Purposes of Determining Tax Treatment Decision Tree](#)

[Tax Treatment of Business Expenses \(Service-Related\) Decision Tree](#)

[Tax Treatment of Compensation \(Services, Rents, and Royalties\) Decision Tree](#)

[Tax Treatment of Non-Service Financial Assistance for Individuals Decision Tree](#)

[Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals](#)

[Policy 2.007 Tax Treatment of Compensation \(Services, Rents, and Royalties\)](#)

[Policy 2.008 Tax Treatment of Business Expenses \(Service-Related\)](#)

[Policy 2.009 Tax Treatment of Goods](#)

[Policy 2.010 Tax Treatment of Program Expenses](#)

[Policy 2.011 Requirements When Paying U.S. Persons](#)

[Policy 2.012 Requirements When Paying Foreign Persons](#)

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