

Tax Treatment of Business Expenses (Service-Related) Decision Tree

This decision tree provides a summary of the tax treatment of business expenses. RCUH Policy 2.008 Tax Treatment of Business Expenses (Service-Related), provides more detailed guidance and, therefore, must be read in conjunction with this decision tree.

Refer to Policy 2.005 Identifying the Type of Expenditure for Purposes of Determining Tax Treatment, and Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals.

Is the expense (e.g., airfare, lodging, meals, or any other type of reimbursement or allowance) being incurred as part of a service provided by the recipient (i.e., is it a **service-related** expense)?

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Is the payment being made for the actual service that is being provided?

Refer to Policy 2.007 Tax Treatment of Compensation (Services, Rents, and Royalties).

Is the payment being made to, or on behalf of, an individual (i.e., is an individual the ultimate recipient)?

Does the expense meet **all** of the following IRS accountable plan rules?

1. The expense must be paid or incurred while the recipient is performing services for UH/RCUH (e.g., as an independent contractor, volunteer, etc.) or for his/her own employer, and the services must benefit UH/RCUH (i.e., the party that retained the individual) or his/her employer.
2. The expense must be substantiated and accounted for within 60 days after it is paid or incurred.
3. All excess advance payments or allowances must be returned within 120 days after the expense is paid or incurred.

If the payment is for an entity, refer to Policy 2.007 Tax Treatment of Compensation (Services, Rents, and Royalties).

- Exception – If the payment is for an employee of an entity, the employee was specifically invited by RCUH/UH, and the employee requests that his employer be reimbursed for his expenses because his employer paid for his expenses, continue to use this policy.

A third-party payment is any payment that is not paid directly to the individual incurring the business expense (i.e., when a program pays another vendor to provide services/goods such as airline tickets, accommodations, food, etc. to the recipient).

- The third-party PO should include the following:
 - Expense's business purpose.
 - Recipient's name.
 - Recipient's position/title.
 - Recipient's employer's name, if any.
 - A description of the activity (name, location, date(s)).
 - Recipient's country of residency and visa status.
- The Principal Investigator is responsible for adequately explaining the business purpose of the expense.
- The Fiscal Administrator's approval of a PO payment or Non-Employee Expense Payment Form constitutes an acknowledgement that the cost qualifies as a business expense.
 - U.S. Citizens and Permanent Resident Aliens – If the cost qualifies as a business expense, the third-party PO payment may be approved online. If it does not qualify, the payment will need to be reclassified and may need to be reported to the IRS.
 - Resident Aliens and Nonresident Aliens – If the cost qualifies as a business expense, submit the payment to RCUH Disbursing. If it does not qualify, submit the payment and UH Form WH-1 to RCUH Disbursing. Tax reporting will be required, and grossing-up for tax that should be withheld, may also be required.
- If the recipients are unknown at the time of payment to the third-party vendor (and the payment is treated as an advance to allowing tracking of the payment by RCUH Disbursing), the supporting information must be submitted to RCUH Disbursing at the time the advance is cleared.

Is the expense being paid via a third-party vendor, rather than directly to the recipient (the individual)?

No changes.

The expense may need to be reported and/or withheld.

Is the expense being paid to a volunteer?

Additional requirements/considerations when paying a volunteer for an expense:

- Volunteers may not receive allowances.
- Volunteers may only be reimbursed if accountable plan rules are met **and** an original receipt, invoice, or other proof of payment is submitted for all incurred expenses.
- Mileage is reimbursed at a specific rate.
- Nonresident aliens must be work eligible.
- The program must consult with UH or RCUH Human Resources to determine if the person is correctly classified as a volunteer.
 - UH (UH APM A9.041 and HRS Chapter 90).
 - RCUH (Policy 3.220 RCUH Volunteers).

- The PO or Non-Employee Expense Payment Form should include the following:
 - Expense's business purpose.
 - Recipient's name.
 - Recipient's position/title.
 - Recipient's employer's name, if any.
 - A description of the activity (name, location, date(s)).
- The following individuals are presumed to have a business purpose, but a description of the activity must still be provided:
 - Guest speakers providing services to RCUH/UH.
 - Independent contractors performing services for RCUH/UH.
 - Individuals invited for an RCUH/UH job interview.
 - Employed business visitors (the services must be related to the visitor's employment).
 - UH and RCUH volunteers.
- Required Documentation:
 - UH Form WH-1 (if the recipient is being paid directly).
- The Principal Investigator is responsible for adequately explaining the expense's business purpose.
- The Fiscal Administrator's approval of a PO payment or Non-Employee Expense Payment Form constitutes an acknowledgement that the cost qualifies as a business expense.
 - U.S. Citizens and Permanent Resident Aliens – If the cost qualifies as a business expense, the payment may be approved online. If it does not qualify, the payment may be IRS-reportable and the expenditure code should be changed before the payment is approved.
 - Resident Aliens and Nonresident Aliens – If the cost qualifies as a business expense, submit the payment to RCUH Disbursing for processing. If it does not qualify, submit the payment to RCUH Disbursing for a determination of the reclassification of the expense, and the appropriate tax reporting and possible tax withholding that may be required.

No changes.

Is the expense being paid via a third-party vendor, rather than directly to the recipient (the individual)?