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.
  - Principal Investigator's name.
  - Principal Investigator’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 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 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 would 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.

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.

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

#### Start Here

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

- Yes
- No

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

- Yes
- No

#### Additional requirements/considerations when paying a vendor 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.
- 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, 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.

#### Does the expense meet all of the following IRS accountable plan rules?
- Yes
- No

#### If the payment is for an individual:
- 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 being paid via a third-party vendor, rather than directly to the recipient (the individual)?
- Yes
- No

#### Is the payment being made to a volunteer?
- Yes
- No

#### Is the payment being made to, or on behalf of, an individual (i.e., an individual the ultimate recipient)?
- Yes
- No

#### Is the expense being paid for the actual service that is being provided?
- Yes
- No

- The PO or Non-Employee Expense Payment Form constitutes an acknowledgement that the cost qualifies as a business expense.
- 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.

#### Is the payment being made for the actual service that is being provided?
- Yes
- No

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.