University of Minnesota

Annual Report
of the
Tax Management Office
Fiscal Year Ended June 30, 2020
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I. Overview

Mission of the Tax Management Office

The University of Minnesota Tax Management Office (TMO) is a consulting group that supports University departments with their business tax needs. Our mission includes:

- Managing tax compliance for the University;
- Responding to University community tax questions, conducting tax research as necessary, and advising regarding tax planning options and consequences;
- Issuing Tax Management Office Guidelines (TMOGs) to assist departments in understanding and complying with tax laws;
- Contributing to policy, procedure, and reporting system development to incorporate and automate tax requirements;
- Serving as the University’s primary liaison with federal and state tax authorities;
- Following federal and state tax legislative initiatives, identifying the impact of proposals on the University, and communicating tax law changes;
- Outreach to the University community and other higher education institutions locally, statewide, and nationally.

This report summarizes the scope of operations of the University’s TMO as of the fiscal year ended June 30, 2020. The last report TMO presented to the Board of Regents was for fiscal year 2016, so this report incorporates fiscal years 2017, 2018, and 2019 as well.
The TMO is within University Finance.

The TMO has four full-time employees and also employs two student workers from the Carlson School of Management.
Tax Relationships

The TMO maintains relationships with many University entities and resources. Consultation and coordination with other units at the University is a key function of the TMO.
**Tax Types**

The TMO provides guidance related to the following tax types, tax topics and reporting requirements:

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<td>Sponsorships</td>
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</tbody>
</table>
II. Tax Authority Inquiries

University Tax Representative

The TMO is the primary University representative for inquiries sent from federal or state taxing authorities. TMO staff review information provided by University units and respond to information requests made by taxing authorities.

Items to Note

*Forms 1099 and 1098-T Penalty Assessments and Abatements*

In 2018, the University received an IRS Notice 972CG proposing a penalty of $2.6M related to filing information Forms 1099 and 1098-T for 2016. In 2019, the same type of notice proposing an additional penalty of $2.3M related to information Forms 1099 and 1098-T filing requirements for 2017. The TMO was able to secure abatements of both of these proposed penalties.

*Sales Tax Issues due to COVID-19*

Due to COVID-19, many units that file sales tax returns had overpaid sales tax for various periods during 2020. As a result, the Minnesota Department of Revenue requested additional information to support refund claims. These information requests flowed through the TMO allowing the TMO to provide advice regarding the data provided to the taxing authorities.

*4-H Notices*

All Minnesota 4-H Organizations are covered under federal Group Exemption Number (GEN) 5939. The Regents of the University of Minnesota (U of M) is the central organization with respect to this group ruling. As such, we assist them with responses pertaining to any IRS notices.
III. Tax Consulting

The TMO provides tax consulting services to the system wide University community. TMO visits system campuses and outreach centers as schedules allow.

Consulting with U of M Departments

The TMO regularly meets with University units listed below to identify and discuss tax issues. For example, on a monthly basis TMO meets jointly with Payroll Services in the Office of Human Resources and Accounts Payable in the Controller’s Office to review specific fact patterns and talk through reporting requirements. TMO meets quarterly and biannually with other units.

Affiliated Organizations

TMO provides tax consulting services to affiliated organizations. This includes questions pertaining to Form 1099 reporting, unrelated business income, sales tax, private use, unclaimed property, CARES Act funding, and general accounting questions.
Policy and Contract Reviews

TMO frequently participates on teams developing revisions to existing policies and reviews drafts of policy changes for tax implications. In addition, TMO assists the Office of General Counsel (OGC) in contract reviews for sales tax, unrelated business income, and private business use issues.

University Operations Tax Consulting

The TMO is a resource to all University departments on all tax matters. Examples include the following:

External/Internal Sales Applications: TMO is part of the review process for external sales applications and we analyze each activity for both sales tax and unrelated business income tax issues.

Sales Tax: TMO responds to inquiries on a daily basis regarding taxability of items, the appropriate sales tax rate to charge on a transaction, documentation needed to prove an exempt sale was made appropriately, or language to use on invoices to support the tax treatment. We also assist departments with sales tax return filing and remittance issues and review the annual sales tax return prepared by Accounting Services. The TMO is the main contact between the University and the Minnesota Department of Revenue (DOR), and our relationships with the DOR are utilized frequently in the sales tax area.

Private Business Use: TMO consults on a variety of issues that pertain to private business use in our facilities. One example is when TMO worked with OGC to update our lab use agreement template to accommodate a private use exception.

Unrelated Business Income: TMO works with departments who are involved in activities that create unrelated business income. In addition, the TMO was very involved with the development and review of the new sponsorship policy and procedures.

Charitable Contributions: TMO works with the Foundation and departments who are receiving charitable contributions. The TMO is in charge of the reporting requirements required for noncash contributions.
Legislation Monitoring

The TMO monitors federal and state proposed and passed legislation to identify potential impact on the University.

**Tax Cuts and Jobs Acts**

Additionally, recently issued regulations relating to provisions in the Tax Cuts and Jobs Act (TCJA) enacted December 22, 2017, and numerous Internal Revenue Service Notices have been reviewed and interpreted to provide guidance related to operations and reporting requirements of the University.

**Taxpayer First Act**

On July 1, 2019 the President signed into law the Taxpayer First Act of 2019. The Act extends the requirement to e-file to all tax-exempt organizations required to file statements or returns in the Form 990 series, generally effective for tax years beginning after July 1, 2019. This will affect the U of M’s Form 990-T and the other Forms 990s filed through the TMO.
COVID-19 Legislation

During 2020, several important bills were passed that had tax related provisions, including:

- Families First Coronavirus Response Act (FFCRA) Enacted March 18, 2020
  - Required University to provide emergency paid sick leave
  - Allowed University to exempt emergency leave for employer’s portion of Social Security 6.2% tax

- Coronavirus Aid, Relief and Economic Security Act (CARES) Enacted March 27, 2020
  - Allowed University to defer payment of Social Security 6.2% tax on certain 2020 wages with half of deferral due 12/31/2021 and the other half due 12/31/2022
  - TMO provided input on the structure of Higher Education Emergency Relief Fund (HEERF) payments provided for under CARES

Group Exemption Letter Proposed Guidance

On May 1, 2020, the IRS issued Notice 2020-36, which contains proposed procedures for central organizations to receive and maintain group exemption letters for subordinate organizations affiliated with and under the general supervision of the central organization. Because of the University’s Group Exemption Letter for the Minnesota 4-H Organizations, this notice is of interest to the University and TMO submitted comments to the IRS. In addition, the Tax Director has provided key information pertinent to higher educational regarding this Notice to top IRS administrators as a member of the AICPA National Technical Resource Panel.

State Legislation

The TMO regularly reviews state legislative proposals, providing feedback to the University Government Relations area. An example of TMO involvement in state legislative work is the request for a sales tax exemption for scholarship seating donations (SSDs). The TMO actively contributed to suggested exemption language and attended and testified at legislative hearings to support the proposal. We expect that this provision will again be proposed for the 2021 legislative session.
Consulting Items to Note

Below is a list of consulting projects in which the TMO has been involved.

<table>
<thead>
<tr>
<th>COVID-19</th>
<th>Debt</th>
<th>Unrelated Business Income</th>
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<tr>
<td>Tax Treatment of CAREs Act Funds Disbursements</td>
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<td>Sponsorships</td>
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<td>Student Employees Working Outside the US due to COVID</td>
<td>Real Estate Acquisitions including setting up 2515 University Ave LLC</td>
<td>UBI on Transportation Fringe Benefits</td>
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<td>Expense Reimbursements and Social Security deferment opportunities</td>
<td>P3 Opportunities</td>
<td>Super Bowl</td>
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<td>BioMade</td>
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<table>
<thead>
<tr>
<th>Payroll and Fringe Benefits</th>
<th>Multistate Project</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Process for Education Income Exclusion</td>
<td>Sponsoring Member</td>
<td>Member Advisory Team with oversight of International Operations</td>
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<tr>
<td>TMOG on Clothing</td>
<td>Steering Committee</td>
<td></td>
</tr>
<tr>
<td>Royalty Waiver Policy with Tech Commercialization</td>
<td>UBI, Sales Tax, Registration and Payroll Sub-committees</td>
<td>Address Specific Country Tax Issues</td>
</tr>
</tbody>
</table>
IV. Tax Compliance

Tax Returns

U of MN Form 990-T

The TMO completed the fiscal year 2019 (July 1, 2018-June 30, 2019) Form 990-T, Exempt Organization Business Income Tax Return, for the Regents of the University of Minnesota. As part of this return, twenty-five different activities were reported on the return. Under old tax rules, the University would have reported an overall net loss which would be added to our net operating loss carryforward. However, this was the first Form 990-T filed under the new TCJA rules.

According to IRC Section 512(a)(6) added by the TCJA:

- If a tax exempt organization has more than one unrelated trade or business, UBTI must be computed separately with respect to each trade or business.
- Any loss derived from one unrelated trade or business may not be used to offset income from another unrelated trade or business.
- Corporate tax rate is now 21%.
- Applies to tax years beginning after December 31, 2017.

The U of MN reported twenty-five different activities, combined into 8 silos:
RUMINCO Ltd. Form 990

The TMO completed the fiscal year 2019 (July 1, 2018-June 30, 2019) Form 990, Return of Organization Exempt From Income Tax, for RUMINCO, Ltd. TMO prepares the return each year and it is reviewed and approved by RUMINCO’s Board of Directors prior to filing.

MN 4-H Organization Federal Filings

4-H organizations are usually run and administered by local volunteers under the direction and control of the University Extension. Having a strong central administrative presence for tax issues ensures that tax matters are consistently addressed across all 4-H organizations. To this end, the TMO prepared the 990/990-EZ tax filings for 58 4-H councils/federations. In addition, the TMO tracks the filing of all 990-Ns to ensure this filing process has been completed for all clubs and qualifying councils/federations.

Quarterly Federal Excise Tax Returns

TMO files a Quarterly Federal Excise Tax Return, Form 720. Pursuant to the Affordable Care Act (ACA), a Patient Centered Outcome Research Institute (PCORI) fee is remitted on the Form 720 each year. TMO reviews the calculation of the PCORI fee which generally exceeds $100,000 each year.

Due to recent litigation challenging the constitutionality of the ACA, the TMO filed a Form 843 that acts as a protective claim keeping open a period for which we may be able to claim a refund of the PCORI fee, depending on the outcome of the litigation.
**Tax-Exempt Debt**

The TMO plays an important role in the University’s tax-exempt bond compliance. Kirsten Muller, Assistant Tax Manager, sits on the Debt Process Team (DPT). Kelly Farmer, the University Tax Director, sits on the Debt Oversight Group (DOG) and attends the Debt Advisory Management Committee (DMAC) meetings.

The TMO assists the Director of Debt Management on post-issuance compliance pertaining to tax-exempt bonds. This includes preparing annual private business use calculations on buildings throughout all campuses and outreach centers.
V. Other Tax Services

Education Benefits Exclusion

The TMO reviews education exclusion applications for employees using the Regents Scholarship. Most graduate level education benefits are considered taxable benefits to the extent they exceed $5,250. Due to the suspension of miscellaneous deductions for individual filers under TCJA, the TMO worked with the Office of Human Resources and Payroll Services to create a process to apply for an income tax exclusion as a working condition fringe benefit. When approved by TMO, the Payroll Services unit reduces taxable income for employees as appropriate. This option has steadily grown since it became available in 2018 as indicated on the graph below. The exclusion provides a valuable benefit to both employees and the University by lowering taxable income as appropriate.
MN 4-H Organization Group Ruling

Central Organization

All Minnesota 4-H Organizations are covered under a federal Group Exemption Letter. The University is the central controlling organization with respect to this group ruling. Under this group ruling, the Minnesota 4-H Organizations are exempt from federal income tax under § 501(c)(3) of the IRC. As the University is the central controlling organization, the TMO is responsible for (a) ensuring that its current subordinates continue to qualify to be exempt; (b) verifying that any new subordinates are exempt; and (c) updating the IRS on an annual basis of new subordinates, subordinates no longer to be included, and subordinates that have changed their names or addresses. The TMO updates the IRS Master File for all 4-H organizations covered by the University Group Exemption Letter each March.

Web Site

The TMO maintains special 4-H web pages so the public can verify the tax status of the various 4-H organizations in the State of Minnesota. The TMO maintains this website to assist individuals in understanding the charitable deduction status of donations made to 4-H Organizations that otherwise is not available through the IRS. A current listing of Minnesota 4-H organization is updated monthly in order to comply with this responsibility.

Other Services

The TMO continues to monitor new clubs coming into existence and applying for their taxpayer identification numbers by filing Form SS-4 as the entity responsible for all 4-H organizations in the state.
VI. Tax Website Resources

The TMO has a robust web site at tax.umn.edu that provides high level and detailed guidance covering a myriad of tax topics to the University community. The web site was recently modified to use the same format as other University Finance Units. Resources available include the University’s IRS Form W-9 and the Minnesota sales tax exemption certificate.

Sales Tax

One example of information contained on the website relates to the University’s exempt status from sales tax when making purchases in other states. The green states on the map below indicate that the University has exempt status for purchases in those states. Red indicates no exempt treatment and yellow indicates no state sales tax in those states. This information is useful when University personnel are traveling to other states.

Tax Management Office Guidelines

TMOGs available on the web site are written guidance created by the TMO to respond to tax concerns of wide interest. Recently issued TMOGS address the taxation of employee awards and employer provided clothing as well as a new edition of the TMOG dealing with payments to students. Job aids to assist in reporting taxable benefits are also included under the Resources tab on the web site.
**Student and Parent Resources**

The website also provides valuable links to IRS publications in an effort to assist students with filing requirements as well as a link to the Volunteer Tax Assistance Program (VTAP) that helps students with filings.

**Private Use Maps**

The TMO has prepared maps of each of the campuses identifying the capacity for private business use within each building. Departments refer to them prior to entering into any private business use arrangements. A color-coded key within the maps helps departments interpret the information and capacity for outside use. These maps are updated annually.

**Minneapolis PBU:**

![Minneapolis PBU Map](image)

**Duluth PBU:**

![Duluth PBU Map](image)

**St. Paul PBU:**

![St. Paul PBU Map](image)

**Morris/Crookston PBU:**

![Morris/Crookston PBU Map](image)
VII. **TMO Network**

The TMO continues to have involvement with The University Tax Peer Group (UTPG) and with The Minnesota Colleges & Universities Tax group (MNCUT).

### UTPG Tax Peer Group
- University of Alabama
- Arizona State University
- Brigham Young University
- University of California System
- University of Central Florida
- University of Colorado System
- Florida State University
- Indiana University
- University of Iowa
- University of Michigan
- University of Minnesota
- The Ohio State University
- University of North Carolina
- University of South Florida
- University of Texas System
- University of Utah
- University of Washington

### MNCUT Tax Peer Group
- Augsburg College
- Bethel University
- Bethany Lutheran College
- Carleton College
- College of St. Benedict
- College of St. Scholastica
- Concordia College
- Dunwoody College of Technology
- Macalester College
- Minneapolis College of Art and Design
- Minnesota State
- St. Catherine University
- St. John’s University
- St. Olaf College
- University of St. Thomas

A significant purpose of these groups is to identify key issues that each institution is working through and identify issues surrounding IRS and Minnesota Department of Revenue audits and compliance initiatives with other higher education institutions. This has been an invaluable tool for the TMO to prioritize areas of compliance emphasis within the University. Through involvement with these resources, we were able to identify IRS audits occurring in higher education in the state of Minnesota as well as other states.

The Tax Director is a participant of the AICPA Exempt Organization Technical Resource Panel and works with other panel members and AICPA staff in evaluating various tax positions taken by the IRS and assists in the development of any official response by the AICPA on the matter. This helps the University to be kept current on the various tax developments affecting higher education exempt organizations.

The TMO personnel also present at various higher education tax conferences throughout the year.