

SALES TAX| RECOUPMENT THRESHOLD

University Financial Services

Presenter: Penny Cox, Treasurer

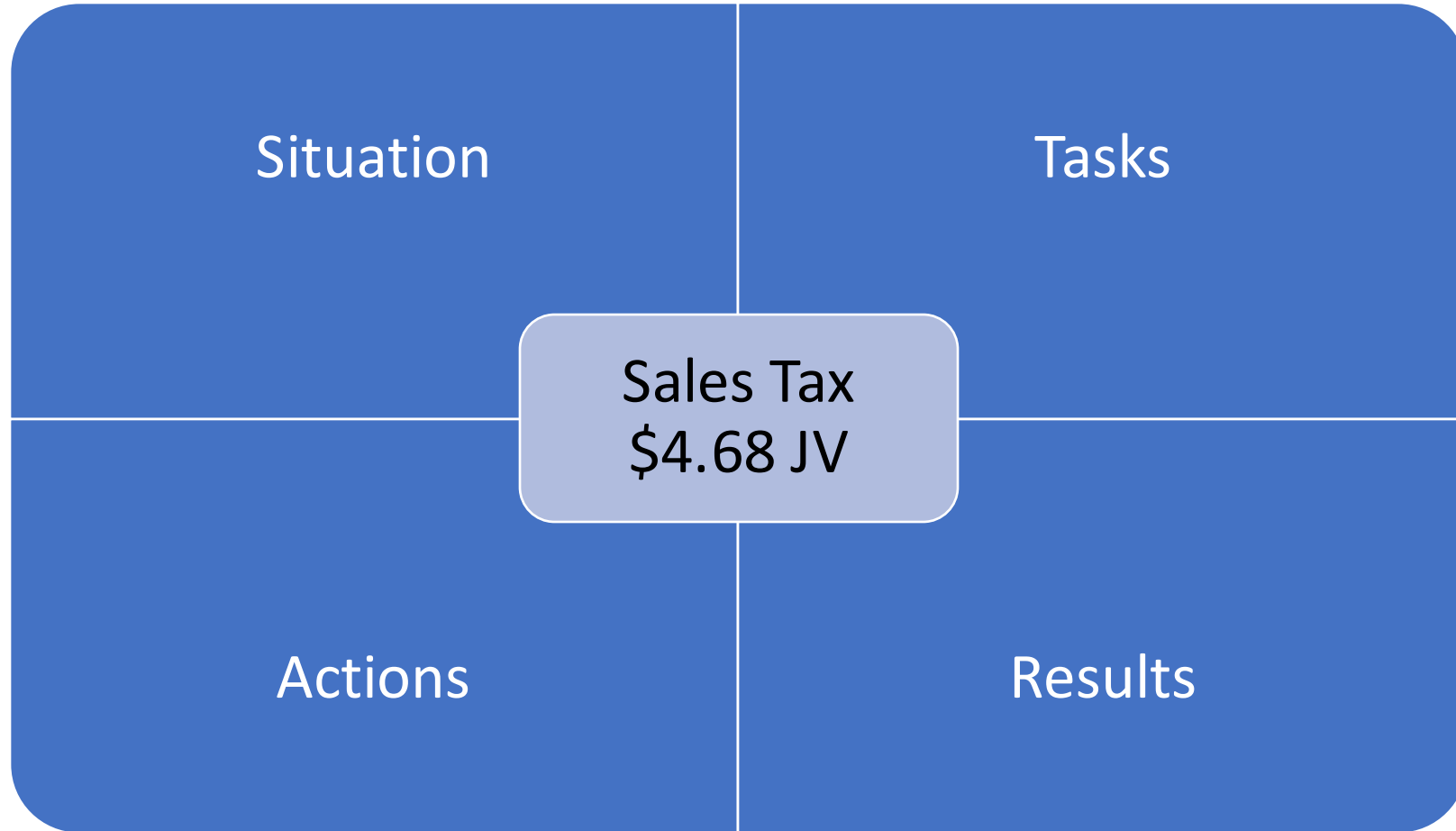
University Budget Officer Meeting October 16, 2024



Objectives

- 1. COLLABORATION** Maintain and strengthen partnership with Vice President for Research – reduce administrative burden
- 2. COMPLIANCE** Adequately documented expenses that are reasonable, allocable, and treated consistently
- 3. TRANSPARENCY & ACCOUNTABILITY** Ensure clarity and openness of communication - policies, procedures and decisions
- 4. COMMUNICATION** Ensure information is shared broadly with campus constituents'

STAR Methodology



UNIVERSITY FINANCIAL SERVICES – UBO MEETING

Sales Tax | Recoupment Thresholds

Situation — Set the scene and give necessary details

- As an agency of the Commonwealth of Kentucky, the University of Kentucky is exempt from Kentucky Sales Tax.
- The [Purchasing Department's](#) web site provides the necessary tax-exempt information and a copy of UK's Tax Exempt form. Our Tax Exempt Number is A-00276

Grants: xxxxxxxxxx

Date of transactions: 7/19/24

Date expenses posted to grant: 7/23/24 |

Vendor: Republic Parking

Dollar Amount: **\$4.68**

G/L Code assigned to the expense: 530019

As part of its monthly grant reconciliation process, the Collaborative Grant Services (CGS) office has determined the above transaction(s) to be non-compliant for the following reason:

State sales tax is an unallowable expense on sponsored projects in states that recognizes UK's tax-exempt status. For more information, please see the links below. If sales tax is charged, it should be placed on a cost center and a refund should be requested from the vendor.

[Procurement Card - FAQ's | University Financial Services \(uky.edu\)](#)

[Sales Tax Exempt Information By State | UK Purchasing \(uky.edu\)](#) – sign in required

For this reason, these expenses do not comply with federal Uniform Guidance and/or the UK standards that define allowability of costs: all expenses must be reasonable, allocable, and treated consistently. In addition, to be considered compliant, they must be adequately documented in accordance with UK purchasing documentation standards and procured through the prescribed methods from UK.

The expense has been transferred via journal voucher to the grant responsible unit's indirect overrun cost center per the CGS non-compliant grant transaction transfer process. Completion of JVs to move expenses from the indirect overrun cost center are the responsibility of the department/center.

UNIVERSITY FINANCIAL SERVICES – UBO MEETING

Sales Tax | Recoupment Thresholds

Situation: Applicable Regulations

- Per KRS 139.495, schools, colleges and universities are exempt from the sales and use tax on purchases that are used within the educational function of the institutions. *UK's sales tax-exempt number is located on the sleeve containing the Sales Tax-Exempt Certificate.*
- Per UK's *Procurement Card Manual*, for out-of-state purchases, UK's tax-exempt status may be recognized by that state (see sidebar).
- When sales tax is charged to a procurement card when it should have been exempt, **the unit must contact the vendor directly to arrange for a credit.**

States that Recognize UK's Tax-Exempt Status

- Alaska
- Colorado
- Delaware
- Florida
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Maine
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- New Hampshire
- New Jersey
- North Dakota
- Ohio
- Oregon
- South Dakota
- Tennessee
- Texas
- Vermont
- Wisconsin

University Financial Services – UBO Meeting

Sales Tax | Recoupment Thresholds

Task - describe responsibility

- *To comply with federal Uniform Guidance and/or the UK standards that define allowability of costs: all expenses must be **reasonable, allocable, and treated consistently**. In addition, to be considered compliant, they must be **adequately documented**.*
- Current situation: Examples of hours various staff members across the enterprise must currently invest to resolve sales tax credit:
 - **Unit** – Track and document sales tax and obtain credits from vendors as appropriate
 - **University Financial Services** – Review and approve the credits in Concur; maintain accurate financial statements for the University
 - **Collaborative Grant Services (CGS)** – Perform JVs for tax payments on items charged to a grant

In many cases, it costs more to attempt to recoup this sales tax than the University would receive even if 100 percent were to be recouped.

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Sales Tax | Recoupment Thresholds

UKIA review – Procard Data

Over the last 15 months, UKIA completed 14 ProCard reviews, each of which noted exceptions related to sales tax paid when it should have been exempt.*

UKIA Sales Tax Activity					
	Department	Audit #	Transactions	Exceptions	Total Payment
1	College of Engineering	2023 FR10	122	3	\$ 569.35
2	Office of Philanthropy	2023 RA02	126	6	\$ 49.63
3	Office of Vice President Research	2023 RA09	-	5	\$ 37.18
4	College of Social Work	2024 FR06	-	10	\$ 200.00
5	Division of Regulatory Services	2024 FR04	228	4	\$ 28.42
6	College of Fine Arts	2024 FR01	131	6	\$ 194.99
7	College of Medicine Radiation Medicine	2024 RA04	373	4	\$ 146.71
8	College of Medicine Urology	2024 RA04	188	2	\$ 354.05
9	College of Medicine Barnstable Brown	2024 RA04	214	11	\$ 123.56
10	College of Medicine Ortho Surgery	2024 RA04	294	7	\$ 438.02
11	College of Medicine Markey Cancer Center	2024 RA04	374	5	\$ 72.58
12	College of Medicine Pharmacology	2024 RA04	363	6	\$ 29.96
13	College of Medicine Behavioral Science	2024 RA04	332	11	\$ 40.03
14	College of Medicine Sanders Brown Center on Aging	2024RA04	361	6	\$ 52.04
		Total	3,096	86 (<3%)	\$ 2,336.52

*Reported as "Discussion Only" items due to their low impact/risk.

Actions — Explain what steps taken to address

- Currently, when any amount of sales tax is charged on grants, CGS is preparing a JV to move the cost off the grant and apply it to a clearing account.
- Completed research on the sales tax issue. Did not find a restriction on charging sales tax to grants. Nonetheless, based on our public entity status, the University does have a sales-tax exemption.
- The cost and administrative burden for the recoupment of low dollar amounts (e.g. **\$4.68** on the example) is greater than the sales tax. University staff are spending hours completing these tasks.
- Recommended that at the institutional level the University establish an allowable sales tax **threshold of \$30** (\$500 @6% tax).
- Reviewed the proposed threshold with Joe Reed, Internal Audit Chief Accountability Officer; Barry Swanson Chief Procurement Officer; Shannan Stamper, Deputy General Counsel; Shan Wang, Controller; and Acting Vice President for Research, Ilhem Messaoudi. All support the change.

Result — Share outcomes achieved

This change went into effect as of 10/14/2024. It is posted as an FAQ on our UFS website.

Sales Tax was charged to my procurement card. What should I do?

The University is exempt from Kentucky state sales tax. **Based on cost and administrative burden for recoupment, a sales tax threshold of \$30 is allowable.** When sales tax **greater than \$30** is charged to your procurement card, you must contact the vendor directly to arrange for a credit **for recoupment of sales tax.**

CGS should remove the sales tax from grants if the sales tax amount is over \$30.

The expectation is that the purchaser obtain sales recoupment from the vendor by submitting the university's proof of tax-exemption.

And, Looking Ahead... More STARs

Any UK employee traveling on university business that is charged sales tax at Bluegrass airport, can call Republic Parking at 859-255-0063 to get a credit back for the sales tax.

We also have that guidance in an FAQ on our Travel services webpage <https://www.uky.edu/ufs/resources-and-training#FAQ's>

UFS VALUES YOUR COLLABORATION !!!

Resources

<https://www.uky.edu/ufs/resources-and-training#FAQ's>

<https://www.uky.edu/ufs/sites/www.uky.edu.ufs/files/bpm/E-7-16.pdf>

<https://www.uky.edu/ufs/procurement-card-faqs>

<https://purchasing.uky.edu/>

<https://purchasing.uky.edu/sites/default/files/2021-01/statestaxexempt.pdf>

To access individual certificates via the web links, you must be logged into the Procurement Services website using your Link Blue ID

QUESTIONS

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