



# INTERNATIONAL TAX

*Presented by Fiscal Services*





# Agenda

- Overview
- Definitions
- Travel Reimbursements
- Scholarships/Fellowships
- Self-Employment Income Payments
- Vendor Payments



# Objectives

- Understand International Tax policy
  - Travel Reimbursements
  - Scholarships/Fellowships
  - Self-Employment Income Payments (includes honorarium)
  - Payments to foreign vendors
- Completion of forms
- Required documentation for International Tax Office
- Available resources



# International Tax Office

- Ensures Mason complies with U.S. tax and immigration law when paying foreign visitors, employees and vendors
  - Determines tax status for foreign visitors
  - Analyzes payments to foreign visitors
  - Analyzes payments to foreign vendors
  - Assists with year-end tax preparation for Mason's foreign visitors



## Definitions (1 of 3)

- Foreign national
  - Not a citizen of the U.S. where he/she temporarily resides or visits
- Three groups of foreign nationals based on international tax status
  - Permanent Resident Alien
  - Resident Alien
  - Nonresident Alien



## Definitions (2 of 3)

1. Permanent resident alien is a foreign national

- Authorized to live and work in the U.S.
- Also called a “green card” holder
- Treated as a US citizen for tax purposes – International Tax office not involved



## Definitions (3 of 3)

### 2. Resident alien

- Foreign national who enters U.S. on a temporary basis and obtains U.S. tax residency

### 3. Nonresident alien

- Foreign national who enters U.S. on a temporary basis and does not have U.S. tax residency

Substantial Presence Test determines resident alien or nonresident alien status



# Substantial Presence Test

- Individual must be in the United States for
  - 31 days in current year
  - 183 days counting
    - All days in current year +
    - 1/3 of days in previous year +
    - 1/6 of days in year prior to previous year
- If individual meets the test, he/she is a resident alien. If not, he/she is a nonresident alien

*General parameters only, International Tax Office determines*





## Exempt Individuals

- Individual may also qualify as a nonresident alien if he/she is an exempt individual
- Groups of exempt individuals
  - Students temporarily in the U.S. in F, J, Q or M visa statuses for any part of a calendar year for no more than 5 years
  - Teachers or trainees in the U.S. in J or Q status for any part of a calendar year for no more than 2 years including current and previous 6 years
  - Foreign government-related individuals
  - Professional athletes



## More about Nonresident Aliens

- Restricted to activity or reason for which he/she was allowed entry into the U.S.
  - Tourism
  - Business
  - Study
- Intends to return to home country



# Tax Requirements

- Permanent resident alien/resident aliens
  - All earned income is taxed as if he/she were a U.S. citizen
- Nonresident alien
  - Only income that is generated from U.S. sources is taxed



# Withholding Federal Taxes (1 of 2)

- George Mason University must withhold taxes
  - On income earned in the United States
  - Sometimes on payments to foreign nationals for
    - Travel reimbursements
    - Honorarium payments
    - Scholarships/Fellowships
    - Vendor payments



# Withholding Federal Taxes (2 of 2)

- All U.S. source income is subject to U.S. income tax and reporting unless there is an exemption under
  - Income Tax Treaty
    - Social Security Number (SSN) or Individual Taxpayer ID
    - Employer Identification Number (EIN) for companies
  - U.S. Tax Code



# More on Income Tax Treaties

- An agreement between two governments under which each agrees to limit or modify its domestic tax laws in an attempt to avoid double taxation of income
- May allow foreign nationals to be taxed at a reduced rate or to be exempt from U.S. income taxes on certain kinds of U.S. income
- 66 active tax treaties – China, India, Pakistan, EU countries, some African and Latin American countries



# Travel Reimbursements

- Inform visitor about Mason's policy
- Determine if traveler is a foreign national
  - Visa holders should know their status
- Determine if traveler is eligible for travel reimbursement
  - Dependents of visa holders typically are not eligible for reimbursement



# Prepare Travel Documentation

- Prepare travel authorization
  - Signature of supervisor and fund/org approver
- Prepare travel reimbursement after trip has concluded
  - Signature of supervisor and fund/org approver





# Withholding Taxes for Travel

- Compensatory
  - Working for or performing a service that benefits Mason
  - Non-taxable
- Non-compensatory
  - Studying benefits student and not Mason
  - Taxable



## Withholding Taxes (1 of 2)

- Compensatory capacity
  - Paid to independent contractor including honorarium recipients
  - Services performed benefit Mason
    - This information should be included in the type/class of trip and purpose for trip sections
- No tax withholding



## Withholding Taxes (2 of 2)

- Non-compensatory capacity
  - Relates to scholarship or fellowship which requires no service
  - Benefit is solely to individual
    - This information should be included in the type/class of trip and purpose for trip sections
  - Tax withholding rate of 30% unless a tax treaty or reduced rate applies
- Third party payments subject to withholding
  - Hotels, agents, airlines



# Relationship of Traveler to Mason

- Based on employment status and activity upon which travel is based
  - Employee (non-student)
  - Mason Graduate Research GRA (presenting) and paid with sponsored research funds
  - GRA/GTA not paid with sponsored research funds
  - Mason students
  - Non-immigrants who are non-Mason visitors



## Employee (non-student) Travel

- Foreign national employees follow same travel procedures as all Mason employees
- Candidates follow same procedures as all Mason employees
- International Tax Office approval NOT required



## GRA Travel Paid with Sponsored Research Funds

- A GRA who is presenting and whose travel is paid with sponsored research funds or indirects is presumed to be acting to benefit the sponsored research project and not to further his/her personal education
- Follow same procedures as employees
- International Tax Office **MUST** approve
  - Student/employee clarification



# GRA Travel not Paid with Sponsored Research Funds/Students

- Viewed as furtherance of individual's education and considered part of a scholarship
- Individual should schedule an appointment with the International Tax Office
  - Foreign National Information form
  - Passport
  - Other documentation



## Non-Immigrants/Non-Mason Visitors Travel

- Non-Mason visitors, such as event attendees, are subject to tax withholding since the benefit of attendance is to the individual
- Lecturers/Speakers/other non-Mason presenters are not subject to withholding tax since the benefit of their attendance is to Mason
- Follow same travel procedures as employees
- Bring invitation letter to meeting with International Tax Office





## Travel Case Study #1

- A GRA attends a training workshop in New York and his department requests a travel reimbursement. The GRA is an F-1 student who has been in the United States for less than two years.
- What are the tax consequences of this reimbursement?



# Travel Case Study #1

## Answer

- This is a non-compensatory activity that benefits the student and not Mason. It would be treated as a taxable scholarship. F-1 students are qualified for a reduced tax withholding rate of 14%.



## Travel Case Study #2

- A GRA is required to present a research paper at a conference. This research is part of his GRA responsibilities. Travel reimbursement will be covered by the sponsored research project funds.
- What are the tax consequences of this reimbursement?



## Travel Case Study #2 Answer

- This reimbursement qualifies as a business exemption and would not be taxable because it is performed as a part of the GRA's compensatory activities.



# Scholarships/Fellowships

- Mason must report and withhold tax for nonresident aliens based on—
  - Nature of payment
  - Tax status of recipient



## Nature of Payment

- Qualified scholarship or fellowship is for tuition, enrollment fees, books, supplies, health insurance
  - Nontaxable – paid directly to Mason Student Accounts
- Nonqualified scholarship or fellowship is for travel, room and board, equipment, supplies not required for courses
  - Taxable



# Scholarships/Fellowships Exempt from Tax

- Funding source outside U.S.
- Nonresident alien conducts study, training or research outside of U.S.
- Prizes/awards are generally subject to a 30% withholding tax rate



# Prepare Scholarship/Fellowship Documentation

- Scholarship Award Transaction via Workflow, attach Award Letter.
  - International Tax Office determines tax status, amount of tax, eligibility for tax treaty benefits and forwards to A/P
- International students receiving scholarships or fellowships must visit the International Tax Office





# Scholarship Case Study

- An F-1 student receives a living expense scholarship. After five years, he passes the Substantial Presence Test. Do tax reporting requirements for his scholarship change after he passes the test?



# Scholarship Case Study Answer

- In the calendar year in which the individual becomes a resident, Mason will treat him as a resident for all purposes from his first day of U.S. presence in that year. There is no withholding or reporting required for the scholarship.



# Self-Employment Income Payments

- Payments to nonresident aliens (not employees) for the performance of personal services that benefit Mason such as

1. Contractors
2. Honorarium payments to visiting teachers, lecturers, researchers



## Eligibility to Receive Self-Employment Income Payment

- Department must ensure nonresident alien status and whether it is appropriate for individual to engage in particular activity
  - Review visa
- Tax rate is 30% unless a tax treaty applies
  - “Grossing up” amount paid to absorb cost
  - Example - \$500.00 becomes \$714.29



## Prepare Self-Employment Income Documentation

- Self-Employment Income payments less than \$2,000
  - Honorarium Payment Request form
  - Independent Contractor Evaluation form
  - Invitation letter or written agreement
    - Dates and purpose of activity
  - Copies of immigration documents
- Send to International Tax Office for review/tax calculation



## Prepare Self-Employment Income Documentation Cont.

- Self-Employment Income payments \$2,000 or greater
  - Process request in eVA, attaching all documentation noted in previous slide
  - Add International Tax Manager as an approver on the eVA order
  - International Tax Manager will make necessary adjustment to payment amount if tax withholding is required



# Honorarium Case Study

- A Mason department would like to pay an honorarium to a resident of South Africa to present at a Mason-sponsored seminar event held in South Africa. This individual does not enter the U.S. at all. Does Mason have any tax withholding or reporting obligations?



# Honorarium Case Study Answer

- No, Mason does not have any tax withholding or reporting obligations. However, the payment must be properly documented.
- W-8Ben
- Statement of Services performed outside U.S.
- Contract/agreement letter (if applicable)





# Payments to Foreign Vendors

- Items produced outside the United States are generally considered foreign-sourced income and not subject to U.S. tax withholding
- Tangible goods
  - Physical substance that is made or produced
- Non-tangible goods
  - Intellectual property or services



# Royalties

- Payments to foreign persons/corporations for use of their intellectual property items are subject to 30% withholding tax unless a tax treaty exists
  - Software (annual fees for uploading/buying)
  - Photos
  - Articles



# Paying Foreign Vendor Case Study

- A Mason department contacts a company in the United Kingdom to conduct DNA analysis that would supplement one of their ongoing research projects. This company does not have offices in the U.S. and would be performing the analysis in the U.K.
- What U.S. tax consequences might this contract have?



# Foreign Vendor Case Study Answer

- None, as long as the activity is performed outside of the U.S. The department would need to obtain a properly completed W-8Ben-E form to confirm the foreign status of the U.K. company.



## Royalty Case Study

- A department contracts with a Canadian vendor for hardware and software. The hardware will be paid with a one-time payment but there will be an annual licensing fee for the software.
- Are there any tax consequences?



## Royalty Case Study Answer

- There are two types of payments here. The hardware would be exempt from tax withholding because it is a tangible good. The software would be subject to the 30% withholding tax. Bundled together, the entire payment would be subject to tax withholding unless a breakdown is provided or a treaty exempts the tax.



# P-Card Payment to Foreign Person

- P-Card holder should contact International Tax Office before processing
- International Tax Office will review/advise
- If found to be subject to U.S. withholding tax
  - Reportable to the International Revenue Service
- International Tax Office will request unit to provide fund/org to charge the withholding tax



# Employees/Contractors located outside of the U.S.

Challenges and Risks in Current Operating Environment –

- Is the employee *legally* able to work in country?
- Is an international independent contractor *legally* able to perform the contracted services?
- Are timely and accurate background checks performed?
- Are employment and tax laws being followed?





## Employees/Contractors located outside of the U.S.

Engage a 3rd party, who will serve as the “Employer of Record”

Solution: Will allow the university to hire and pay international remote workers and independent contractors when GMU has no fixed establishment or presence in the country



# Employees/Contractors located outside of the U.S.

Throughout all 50 U.S. states and more than 165 countries and counting, we can get your domestic and global contingent workforce up and running quickly.





# Employees/Contractors located outside of the U.S.

Setup fee, salary, “*plus*”

- Set up fee-varies by country and is per worker contract
- Salary is the workers’ rate of pay times hours worked

“*plus*” includes, monthly

- Social Costs/Employer Burden/Value Added Tax (VAT)  
- Local country employer taxes and other required employer contributions such as pension and retirement

*and*

- Administrative fee – a percentage of the salary and social costs, with a minimum of \$1,745 USD or 20% per worker per month



# Example Guatemala wage worker:

- Background check (thru GMU) \$75, paid centrally
- Setup Fee \$1,100
- Social costs 49.69% of pay
- Value Added Tax (VAT) 12% of pay
- Monthly Administrative fee greater of 20% of salary plus social costs, or \$2,175

Salary	\$1,301.30
Social Cost 49.69%	646.62
Monthly Fee	2,175.00
VAT	494.75
Set up fee	<u>1,100.00</u>

**TOTAL for 1<sup>st</sup> month: \$5,717.67**



# International Tax Office Hours

- Walk-In Hours
  - Fairfax Office (Merten Hall):  
Monday - Friday
    - 9:00 am - 4:00 pm
  - Arlington Office (Founders Hall 222)
    - Send an e-mail to schedule
  - I9s may be handled during walk-in hours



# Resources

- **Elena Cirmizi,**  
International Tax Manager, 3-5223
- **Nona Machavariani,**  
International Tax Coordinator, 3-2969
- **Fiscal Services Website:**  
<http://fiscal.gmu.edu/internationaltax/>