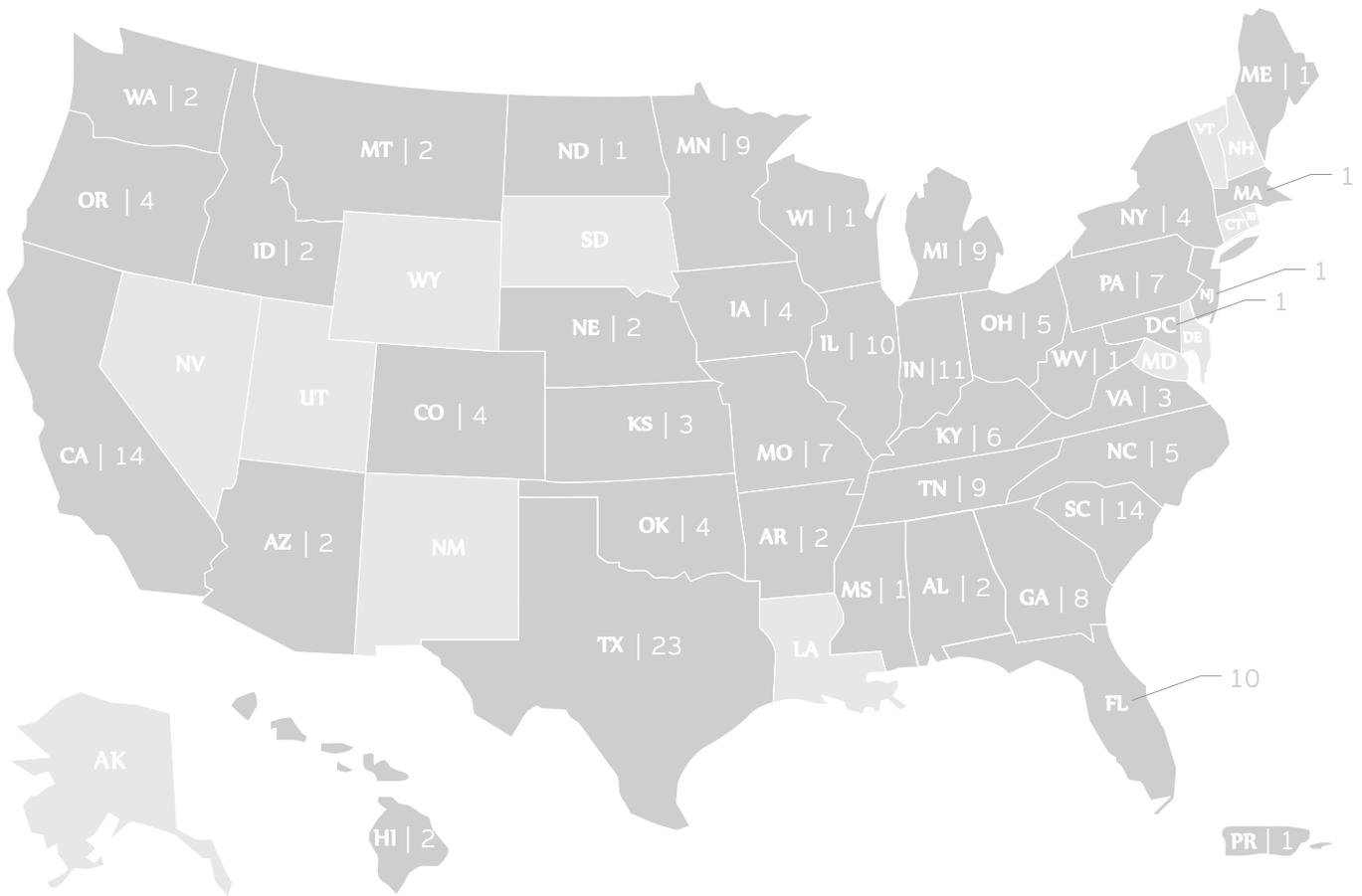




2015 Higher Education

Tax Reporting Trends Project



We are very pleased to present the 2015 edition of CapinCrouse LLP's annual *Higher Education Tax Reporting Trends Project*. We would like to start by sincerely thanking the 198 colleges and universities that participated in the study. Participating institutions were located in 38 states across the U.S. and in Puerto Rico.

The current enrollment of the 198 participating institutions of higher education averaged 1,994, with the largest having 22,770 students and the smallest having an enrollment of 16 — quite a range! We separated the respondents into three categories, based on enrollment size:

	Category A	Category B	Category C
Enrollment	1,700+	500 – 1,700	Under 500
Respondents	78	52	68

Survey

	Responses			
	Total Survey	Category A Institutions	Category B Institutions	Category C Institutions
Do you pay property taxes on any buildings on your main campus?	16.67%	20.51%	19.23%	10.29%
On a scale of 1 to 4, how would you rate the accountable reimbursement plan procedures at your institution?	2.95	3.08	2.85	2.88
Have you constructed a new building in the past two years, or do you have plans to construct a new building in the next two years?	55.05%	67.95%	67.31%	30.88%
Do you have a men's and/or women's soccer team?	59.09%	87.18%	76.92%	13.24%
Does your institution own your soccer stadium/field?	48.48%	75.64%	57.69%	10.29%

Form 990

Does your college/seminary/university file Form 990 annually?	79.80%	94.87%	75.00%	66.18%
Number of schools filing Form 990	158	76	38	44
Average number of students	1,994	4,178	1,091	180
Average total employees (Form 990, Part V, Line 2a)	1,104	1,864	732	121
Average current salaries and compensation (Form 990, Part I, Line 15)	24,246,271	43,155,598	12,340,255	2,152,168
Average current year total expenses (Form 990, Part I, Line 18)	55,342,834	96,625,853	32,582,980	4,181,266

Introduction

Welcome to the sixth edition of CapinCrouse's annual *Higher Education Tax Reporting Trends Project*. This unique statistical review includes financial, tax, and demographic data compiled from our 2015 college, university, and seminary survey.

Our goal is for this report to be a useful reference guide and information tool. While we recognize that no two higher education institutions are exactly alike, the editorial and statistical information contained here should help your accounting team gain a better understanding of potential tax reporting issues that you and peer institutions face.

Our annual survey — which participants completed online, at conferences, and via email — was a great success again this year. To align with the 2015 FIFA Women's World Cup, we incorporated a men's and women's soccer theme that seemed to interest many people. As you will see throughout this report, respondents submitted beautiful pictures of soccer games on their campuses. We wish we could have included all that were submitted!

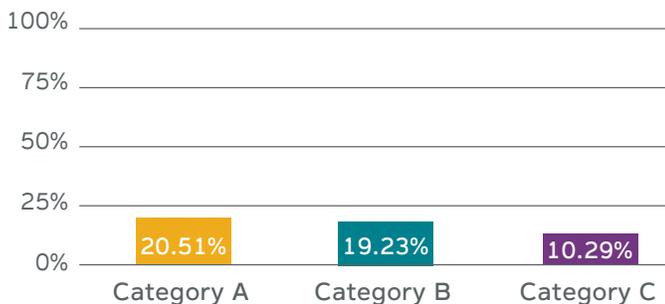
As a preview of the 2016 *Higher Education Tax Reporting Trends Project*, we plan to feature a men's and women's cross country team theme.

Executive Summary

2015 Higher Education Tax Reporting Trends Project Survey

Thanks again to all 198 participants in this year's *Higher Education Tax Reporting Trends Project* survey. The answers to our survey questions are charted below, along with some notes about the results and why we asked these questions.

Do you pay property taxes on any buildings on your main campus?



One of the issues we see gaining momentum around the U.S. is colleges, universities, and seminaries being asked — sometimes not politely — to pay property taxes on their “exempt” property. In many instances, taxing authorities at the state, county, or local level are assessing taxes based on “unrelated” use of the space. In other situations, taxing authorities are taking new stances on whether “exempt” organizations should be paying property taxes. We have also seen a few payment in lieu of taxes (PILOT) agreements that can be more advantageous for higher education institutions than agreeing to pay property taxes.

On a scale of 1 to 4, how would you rate the accountable reimbursement plan procedures at your institution?

We asked this question because it increasingly appears to be a focus area in IRS audits of all not-for-profit organizations, and certainly received much attention during the IRS's Colleges and Universities Compliance Project audits a few years ago. Our survey respondents rated themselves at an average of 2.95 on a scale of 1.0 to 4.0 — a solid C+. Of those respondents, 34 intrepid institutions rated themselves a 4.0 (Excellent) in this area, whereas only three rated themselves a 1.0 (Unsatisfactory).

While some of our respondents may well have excellent plan procedures, this not in line with IRS audit results or our experience. We've found that issues such as housing valuations, use of college cars and other assets, procedures that align with the IRS's rules on travel and entertainment, employee meals, employee gifts, employee classification,

Form 941 matching, and more tend to need work at most institutions.

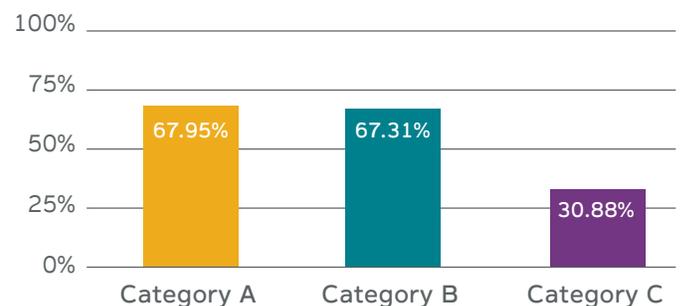
Overall, the ratings were:

4.0 Excellent	34
3.0 Good	38
2.0 Needs Improvement	123
1.0 Unsatisfactory	3

Looking at average ratings by school size, self-analysis on a scale of 1.0 to 4.0 was:



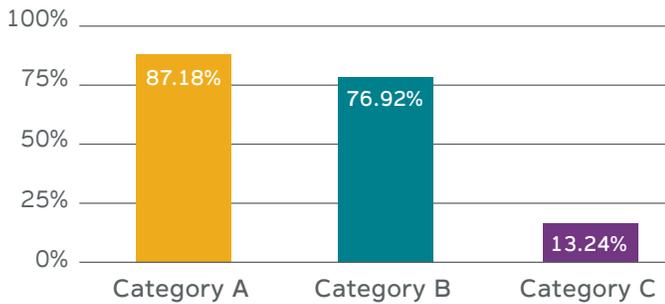
Have you constructed a new building in the past two years, or do you have plans to construct a new building in the next two years?



We also asked this question in our 2012 survey, with a focus on dorm space construction. The responses can be viewed as a growth indicator, and it is exciting to see the growth in our sector.

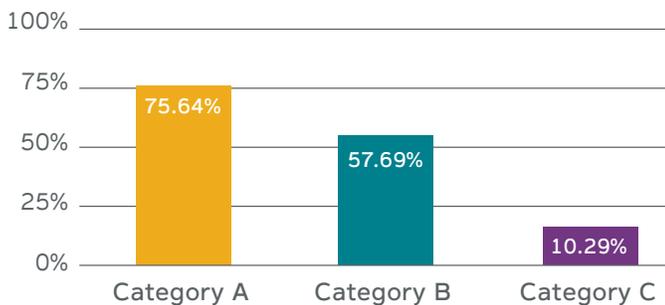
As you consider the cost of adding to your campus, keep in mind the ongoing costs of maintenance and the effects that depreciation may have on your Department of Education ratings. Also, if you use tax-exempt bonds (TEBs), ensure that you have competent counsel and understand the unique provisions in the “TEB Community.”

Do you have a men's and/or women's soccer team?

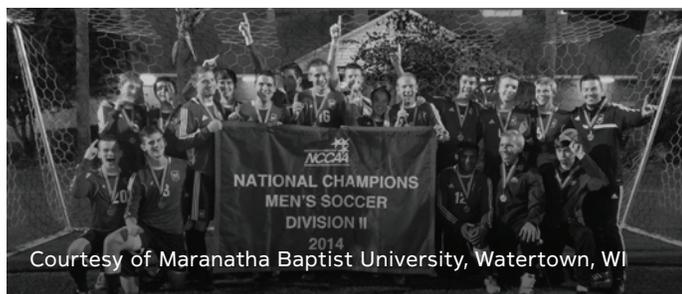


There were two sources of inspiration for this question. First, more and more NAIA and NCCAA schools have soccer programs. And second, the Women's World Cup soccer tournament was held this summer. (Congrats to the U.S. team!) There can be unrelated business income tax (UBIT) considerations related to any college sport and soccer seems to have its share, including advertising banners, agreements with suppliers that may include appearances, and services involved in soccer field rentals. Make sure your institution is well-versed in these areas.

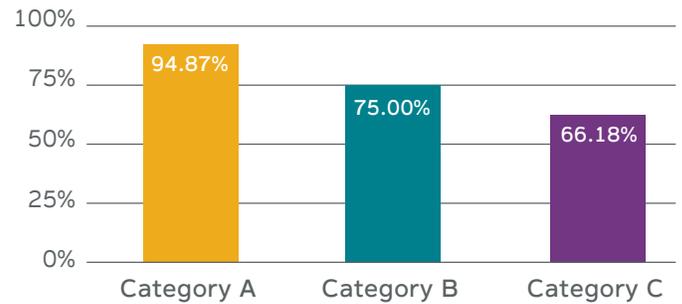
If your answer to the above question was yes, does your institution own your soccer stadium/field?



A companion to the soccer team question above, this question is designed to help colleges, universities, and seminaries gauge what other schools their size are doing with sports facilities. Interestingly, there were two schools in Category C that own soccer fields but do not currently field either a men's or women's team.



Does your college/seminary/university file Form 990 annually?



This is one of the seminal questions in the *Higher Education Tax Reporting Trends Project*. The percentages have increased slightly since 2012, when we last posed this query. We remain concerned that some higher education institutions may not be filing Form 990 even though the IRS would say that they are required to do so. Note that failure to file a required Form 990-series return for three consecutive years can result in revocation of a school's exempt status. Also, penalties could be \$100 per day, up to \$50,000 per year.

Form 990 Data

Average Total Employees (Form 990, Part V, Line 2a, *Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return*)

In our 2015 survey, 158 institutions filed Form 990. The average number of employees (taken from the total on Form W-3) for all Form 990 filers in the survey was 1,104. By enrollment-based category, the average number of employees was:

Category A	1,864
Category B	732
Category C	121

Of the 158 Form 990 filers in the 2015 survey, 125 had more than 150 employees (as reported on this line of the return). After several conversations with colleges, seminaries, and universities over the past few years, we began using the 150-employee level as an indicator for analyzing whether an institution would be defined as an Applicable Large Employer (ALE) under the Affordable Care Act.

One of the most frequent questions we receive from higher education institutions is, "How do we count students in the calculation of whether or not we are a large employer?"

The IRS provides a partial answer in its FAQ:

...under the final regulations, an hour of service does not include any hour of service performed as a bona fide volunteer (as defined in the regulations) for a government entity or tax-exempt entity, as part of a Federal Work-Study Program (or a substantially similar program of a

State or political subdivision thereof), or to the extent the compensation for services performed constitutes income from sources without the United States.

You should carefully monitor your monthly number of full-time equivalent (FTE) employees under the Affordable Care Act. Further, we maintain that there are actually three types of FTEs you should track:

- FTE1 – The number of employees who work over 30 hours per week (or 130 hours per month)
- FTE2 – The number derived from taking all the hours worked by includable employees that are not in the FTE1 group and dividing that by 30 to get a weekly full-time equivalent (or by 130 to get a monthly number)
- FTE3 – The number you get by adding FTE1 and FTE2 together

If FTE3 averages more than 50 for any calendar year, you are deemed an ALE for the following year. ALEs are subject to Employer Shared Responsibility provisions, additional reporting, and other provisions.

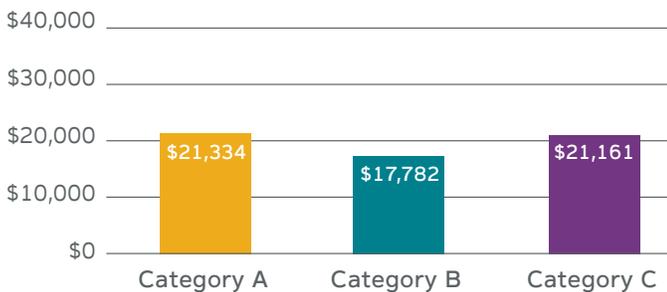
We recommend that you read IRS Publication 5208, "Affordable Care Act: Are You an Applicable Large Employer?" This is available at www.irs.gov/pub/irs-pdf/p5208.pdf.

Average Current Salaries and Compensation (Form 990, Part 1, Line 15, *Salaries, other compensation, employee benefits*; also Form 990, Part IX, Column A, Lines 5-10)

The average compensation per employee for all institutions in our survey was \$20,404. We determined this ratio by taking the amount from Form 990, Part I, Line 18 and dividing that by the number of employees reported at Form 990, Part V, Line 2a.

Now, this is fairly unscientific because these Form 990 numbers include student employees, adjunct professors, and other part-time workers — anyone who received a Form W-2 from the institution. It still provides some interesting data, though. It may be compelling to do a similar calculation for your institution and compare it to the results from our survey respondents in the same enrollment category.

Here are the results of this calculation (Form 990 total salaries, other compensation, employee benefits / Form 990 number of employees) among our survey respondents:



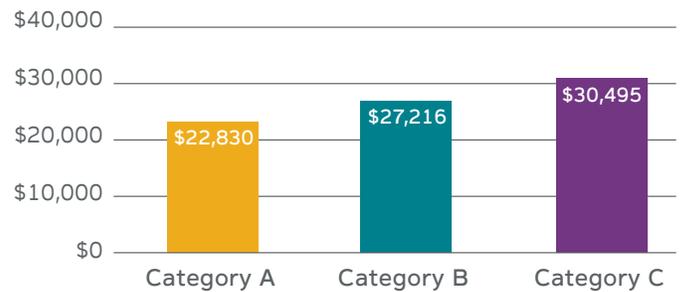
You can quickly extrapolate the effects of including student workers in these numbers!

Average Current Year Total Expenses (Form 990, Part I, Line 18, *Total expenses*; also from Form 990, Part IX, Column A, Line 25)

Average total expenses among the Form 990 filers in our 2015 survey were \$55,342,834! Before you start feeling faint, here are the numbers by enrollment category:

Category A	\$96,625,853
Category B	\$32,582,980
Category C	\$4,181,266

Let's be unscientific again for just a moment and look at another ratio that can be derived from Form 990 data: Total expenses per enrolled student. We calculated this by taking the amount at Form 990, Part I, Line 18 and dividing it by the "total enrollment" number for each school from the iPeds database. The average for this across all Form 990 filers in our survey was \$26,023. Below are the numbers per category:



Courtesy of East Texas Baptist University, Marshall, TX

Higher Education Tax Briefs

UBIT: College Buys a Mall!

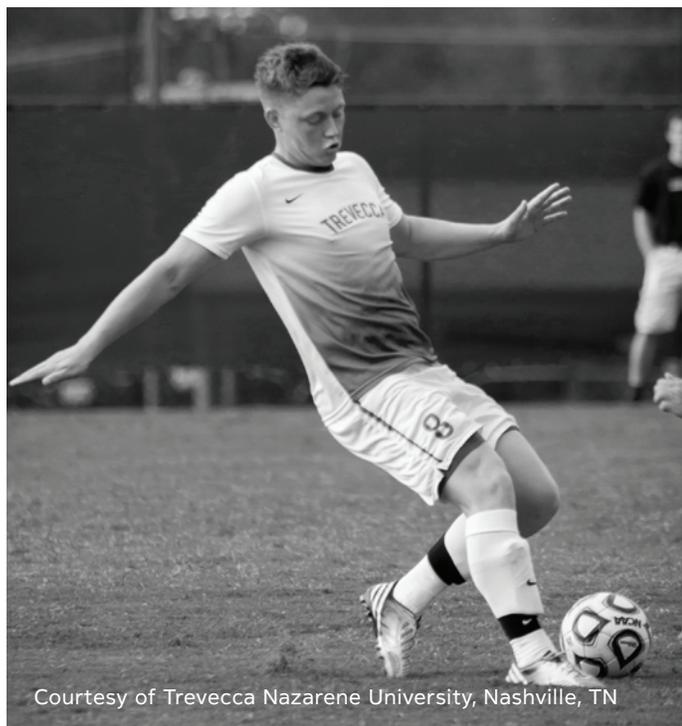
In one of our favorite rulings this year, a private university purchased a nearby shopping mall through a single-member LLC of its supporting foundation. The interesting aspect of this ruling is that the IRS agreed that the rental income received from this “investment” was excluded from unrelated business income (UBI) and that the “services” provided to renters were also not UBI.

This ruling, PLR 201444043, is a great primer on UBIT and real estate investments for colleges, seminaries, and universities. Remember, though, that private letter rulings can only be used as guidance for the organization that requested and received the ruling. If you would like a copy of this PLR, email Dave Moja at dmoja@capincrouse.com.

Form 990: Schedule A Ch-ch-changes

In a dramatic update, the IRS has added two parts and three pages to Schedule A (Form 990), Public Charity Status and Public Support. The additional parts and questions are related to “Supporting Organizations” under Internal Revenue Code section 509(a)(3) and stem from Congressional mandates in the 2006 Pension Protection Act.

If you have a related supporting organization, note that the questions are intricate and intrusive and should not be answered lightly. Make sure you read the instructions carefully and consider attending CPE courses on this



subject. The 2014 Schedule A instructions are available at www.irs.gov/pub/irs-pdf/i990sa.pdf

Form 1098-T, Tuition Statement: IRS Penalty Notices Galore

Over the past few years, many schools have received IRS penalty notices regarding omitted taxpayer identification numbers (TINs) on Form 1098-T. Most students’ TIN is their Social Security number (SSN). Students who are not eligible for an SSN may have an individual taxpayer identification number, known as an ITIN.

The National Association of College and University Business Officers (NACUBO) has provided excellent guidance and worked tirelessly with the IRS on this issue. NACUBO has issued three Advisory Reports with respect to Form 1098-T filing: 2013-1, 2013-2, and 2014-1. The association suggests that to avoid penalties for omitted TINs, institutions should request these ID numbers from students at least twice per year. NACUBO recommends using IRS Form W-9S or a Substitute W-9S to gather TIN data. (A sample Substitute W-9S is provided as an appendix to Advisory Report 2014-1.)

From the IRS’s standpoint, to avoid being subject to fines for failure to report correct TINs on Form 1098-T, institutions must solicit any missing TINs:

- At least once a year
- In writing
- With a clear notice that the individual is required by law to provide the TIN so that it may be included on an information return

It is a great best practice to have someone at your institution check for valid TINs periodically. Consider running a query to find erroneous TINs in the student information system. If a TIN is missing or does not meet the following criteria, it should be considered invalid and the student should be asked to correct or provide it. TIN validity criteria include:

- Numeric with nine digits
- Cannot start with 000, 666
- Position 4-5 cannot be 00
- Last four digits cannot be 0000
- Cannot have nine digits the same, e.g. 222-22-2222
- Cannot be 123-45-6789
- Social Security numbers do not start with 9, but ITINs always start with a 9
- Valid ITINs will have a group number (digits 4 and 5) between 70 and 99, except for 89 and 93

Under current law, the IRS TIN matching service is not available for checking the validity of TINs used for 1098-T reporting. The matching service may be used when filing Forms W-2 and 1099, however. For further information, see www.nacubo.org/Initiatives/IRS_1098-T.html



Photo courtesy of John Brown University, Siloam Springs, Arkansas

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving not-for-profit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served associations, churches, denominations, foundations, higher education institutions, media ministries, community and international outreach organizations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

Higher Education Team

CapinCrouse maintains a specialized team of people who focus on the higher education services provided by the firm.

Northeast

Fran Brown
fbrown@capincrouse.com

Doug McVey
dmcvey@capincrouse.com

Southeast

Dan Campbell
dcampbell@capincrouse.com

Central

Tim Sims
tsims@capincrouse.com

West

Vonna Laue
vlaue@capincrouse.com

National Tax

Dave Moja
dmoja@capincrouse.com