

## UC Davis Policy and Procedure Manual

### Chapter 380, Personnel--General

#### Section 65, Income Tax Withholding and Reports of Earnings for Citizens and Resident Aliens

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Responsible Department: Accounting and Financial Services

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#### I. Purpose

The University is required to take State and Federal withholding tax deductions from the salary and wage payments of all employees and to submit to the State and Federal governments annual reports of employees' earnings. Certain nonsalary and wage payments, both to employees and to nonemployees, are also subject to withholding tax deductions and must be reported to the State and Federal governments. This section explains the various procedures for tax withholding and reporting of earnings for U.S. citizens and resident aliens compensated by the University.

#### II. Definitions

- A. Resident alien--a citizen of a foreign government who is considered by the Internal Revenue Service (IRS) to be a U.S. resident for income tax purposes if the individual: (1) is a lawful permanent resident (immigrant) of the U.S. at any time during the calendar year; or (2) meets the requirements of the "substantial presence" test. (Refer to Section 380-66.) Resident aliens are taxed like U.S. citizens.
- B. Nonresident alien--an alien who does not qualify under either of the above tests (II.A) as a resident alien for income tax purposes.

#### III. Federal and State Income Tax

##### A. Withholding allowances

Withholding tax allowances for portions or all of gross salary are allowed to each employee on the basis of a signed Federal-State Withholding Allowance Certificate, Form W4, filed with Accounting & Financial Services. An employee may request a change in the number of his/her withholding allowances by submitting a new Form W4 through the department or online at the "UC for Yourself" Web site (<https://ucfy.ucop.edu/>).

- 1. Unless this certificate is completed and submitted to Accounting & Financial Services, tax will be withheld from the employee's salary according to the tax scale for a single person with no allowances.
- 2. Employees may certify on Form W4 that they had no tax liability last year and anticipate none for the current year, thereby making them exempt from both Federal and State withholding. This claim must be renewed each calendar year or the employee's withholding status reverts to "single with no allowances." (Nonresident employees are not eligible to claim this exemption from withholding.)

##### B. Earned income credit

The earned income credit can provide payments to lower paid employees who meet minimum salary requirements and who have children living with them. If eligible, employees can receive the payment even if they owe no tax. Eligibility requirements appear on Form W5, Earned Income Credit Advance Payment Certificate, which must be filed each calendar year.

##### C. Income earned outside the United States

- 1. University employees residing overseas and performing compensated services for the University may be eligible to exclude from their gross income (1) their foreign earned income, and (2) their housing cost amount. In order to be eligible for the exclusions, and

eligible to avoid withholding on these amounts, the University employee must meet Internal Revenue Code (IRC) Section 911 definition of a "qualified individual." A qualified individual is one whose tax home is a foreign country throughout the period of residence or physical presence, as described below, and who is:

- a. A U.S. citizen who establishes to the satisfaction of the Internal Revenue Service that he or she has been a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year; or
  - b. A U.S. citizen or a U.S. resident alien who is physically present in a foreign country or countries during at least 330 full days during a period of 12 consecutive months.
2. Employees who believe they may be eligible for these exclusions should contact Accounting & Financial Services. (Refer also to IRC Section 911, Citizens or Residents of the United States Living Abroad, or to IRS Publication 54 for more detailed information.) To prevent the withholding of tax the employee must complete and file with Accounting & Financial Services a certification that the employee is claiming the exclusions allowed by IRC Section 911.

D. Compensation to graduate students

Under the tax law passed by Congress, compensation paid to graduate students that satisfies degree requirements is treated as taxable income. Federal and State withholding tax deductions are required.

E. State tax withholding from payments to nonemployees who are not residents of California

1. For services rendered in California, withholding of State income tax is required on certain payments to individuals who are nonresidents of California. Examples of such payments include fees for professional services (e.g., honoraria, consulting fees, fees for architectural services) and payments to nonresident performing artists or their booking agents. Payments to nonresidents of prizes and awards that are attributable to activities within California, regardless of when performed, are also subject to withholding. The withholding of tax is also required on payments to corporations (other than banks and banking institutions), not incorporated or qualified in California, for performance of services within the State.
2. Payments of \$1,500 or more during a calendar year for services rendered in California are subject to withholding. Accounting & Financial Services withholds 7% of the gross payment amount unless contacted by the Franchise Tax Board (FTB) and provided a different percentage to withhold. Individuals wishing expenses to be taken into account by the FTB in determining the amount of tax to be withheld should contact the FTB Withholding Coordinator at FTB in Sacramento at (800)852-5711.

#### IV. Reports of Earnings

A. Employee salary and wage payments

By January 31 of each year, Accounting & Financial Services issues to employees, for their use in filing their annual income tax returns, a Wage and Tax Statement, Form W2, reporting gross earnings and taxes withheld. (Form W2 reports earnings and taxes withheld on a cash basis according to the date of payment; for example, December 2004 earnings paid on January 1, 2005, will be reported on the 2005 Form W2.)

B. Payments to nonemployees

1. Payments for personal services
  - a. A U.S. Information Return, Form 1099-MISC, is issued for certain payments made to nonemployees for personal services, even though such payments (e.g., honoraria

or architect fees) may not be subject to tax withholding.

- b. Occasionally an individual paid as a nonemployee later becomes a UCD employee or a former employee subsequently receives payment for services as a nonemployee within the same calendar year. These individuals will receive both a Form 1099-MISC and a Form W2.

2. Scholarship and fellowship payments

The University is not required to report or withhold tax from fellowship/scholarship payments made to U.S. citizens and resident aliens; however, the amounts paid may be subject to U.S. income tax. Fellowship amounts are paid to individuals through the UCD payroll system to allow for withholding of income taxes.

## V. References and Related Policies

### A. UC Accounting Manual:

1. [Chapter D-371-12.1](#), Disbursements: Accounting for and Tax Reporting of Payments Made Through the Vendor System.
2. [Chapter D-371-77](#), Disbursements: State Tax Withholding from Nonwage Payments to Nonresidents of California.
3. [Chapter P-196-28](#), Payroll: Federal Taxation of Citizens.
4. [Chapter P-196-77](#), Payroll: State Tax Withholding from Employees.
5. [Chapter T-182-27](#), Taxes: Federal Taxation of Aliens.

### B. UCD Policy & Procedure Manual:

1. [Section 380-14](#), Employment of Aliens (Noncitizens).
2. [Section 380-64](#), Conditions of Visas for Alien (Noncitizen) Students, Scholars, and Visitors.
3. [Section 380-66](#), Income Tax Withholding and Reports of Earnings for Nonresident Aliens.

### C. Academic Personnel Manual:

1. [Section 530](#), Noncitizens.
2. [Section UCD-530](#), Recruitment and Appointment of Aliens (Noncitizens).