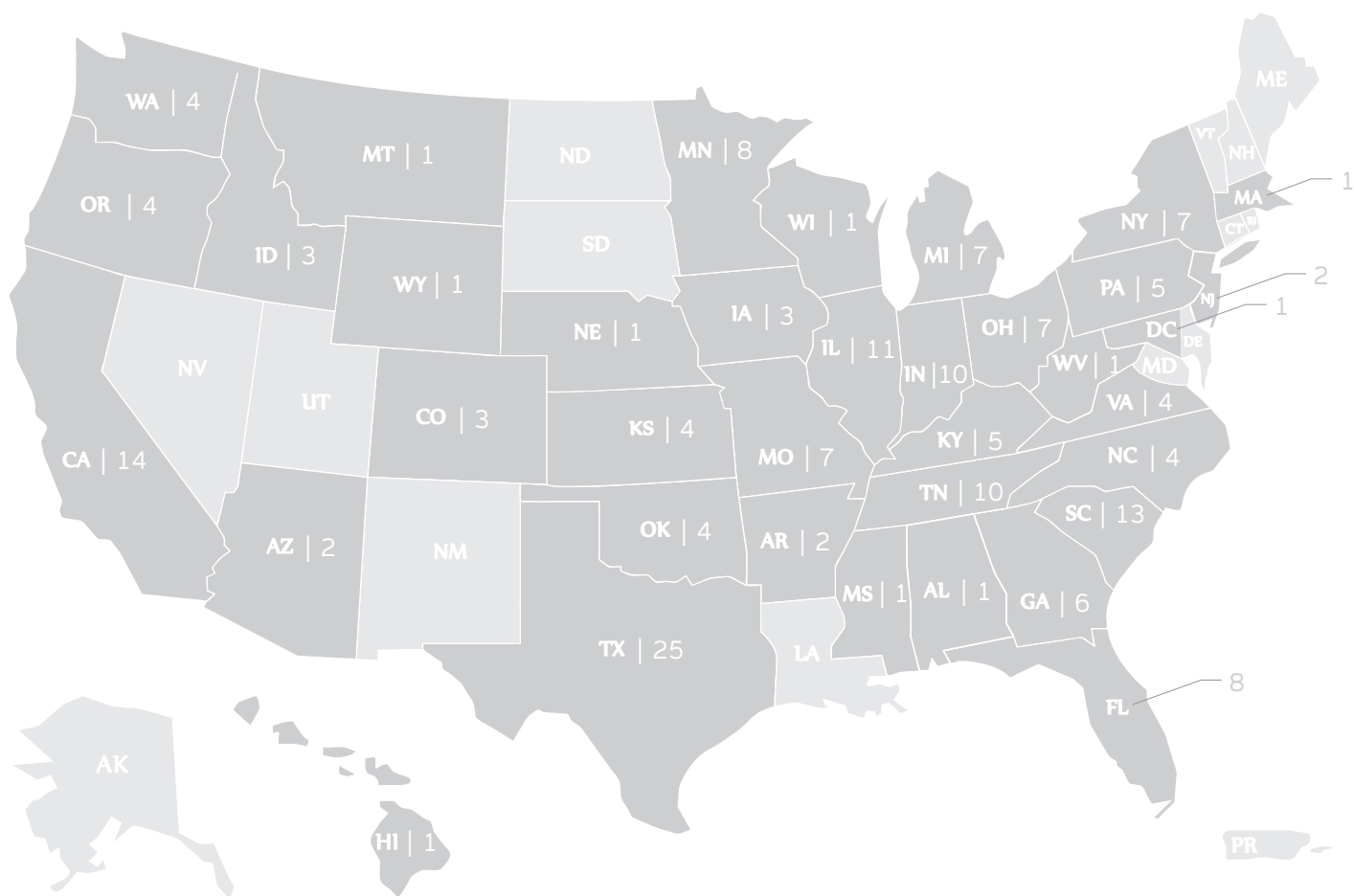




# 2016 Higher Education

Tax Reporting Trends Project



We are very pleased to present the 2016 edition of CapinCrouse LLP's annual *Higher Education Tax Reporting Trends Project*. We would like to start by sincerely thanking the 190 colleges and universities that participated in the study. Participating institutions were located in 36 states across the U.S. and in Washington, D.C.

The current enrollment of the 190 participating institutions of higher education averaged 1,510, with the largest having 14,140 students and the smallest having an enrollment of 24 — 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	52	56	82

## Survey

	Responses			
	Total Survey	Category A Institutions	Category B Institutions	Category C Institutions
Average enrollment	1,509.91	4,031.00	1,097.48	192.83
Are you an "ALE"?	58.29%	75.00%	66.67%	42.11%
Has your institution received an IRS notice regarding Form 1098-T issues within the past three years?	32.98%	76.00%	28.57%	9.76%
On a scale of 1 to 4, how would you rate your school's budgeting process?	2.54	2.63	2.54	2.44
Does your institution have a men's and/or women's cross-country team?	52.66%	84.31%	80.00%	14.63%
Do you hire adjunct professors for online courses?	75.00%	88.24%	76.79%	65.43%
Does your school file a Form 990?	81.05%	96.15%	92.86%	63.41%
Does your institution file any Form 5500s for retirement or employee benefit plans?	54.79%	73.08%	80.36%	25.00%
Does your institution have any conservation easements or historical structures on campus?	22.87%	29.41%	28.57%	14.81%

## Introduction

Welcome to the seventh edition of CapinCrouse's annual *Higher Education Tax Reporting Trends Project*. This unique statistical review includes financial, tax, and demographic data compiled from our 2016 college, university, and seminary survey. This year, we had 232 participants from 190 higher education institutions. A hearty "thank you" to each of you who participated.

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.

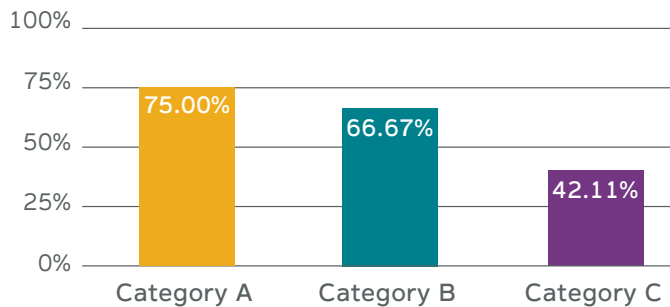
Our annual survey — which participants completed online, at conferences, and via email — was a great success again this year. We incorporated a men's and women's cross-country theme that seemed to interest many people. As you will see throughout this report, respondents submitted beautiful pictures of their cross-country teams. We wish we could have included all that were submitted!

## Executive Summary

### 2016 Higher Education Tax Reporting Trends Project Survey

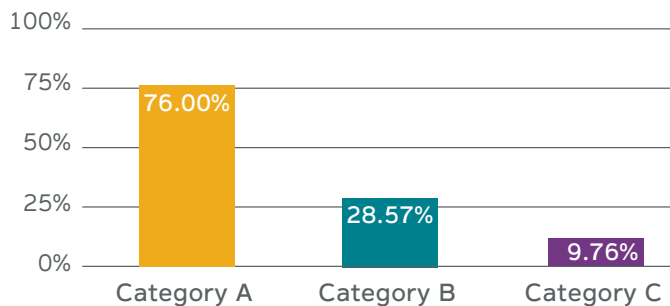
Thanks again to all 232 participants (representing 190 schools) in this year's Tax Reporting Trends survey. The answers to our survey questions are charted below, along with some notes about the results and why we asked these questions.

#### Are you an "ALE"?



Overall, 58.29% percent of participating schools stated that they are "Applicable Large Employers" (ALEs) for the purposes of the Affordable Care Act. As you may know, ALEs have significant reporting requirements, including Form 1095-C. It is imperative that colleges document whether or not they have more than 50 full-time equivalent (FTE) employees for years beginning with 2014. See the article later in this white paper for more on this calculation.

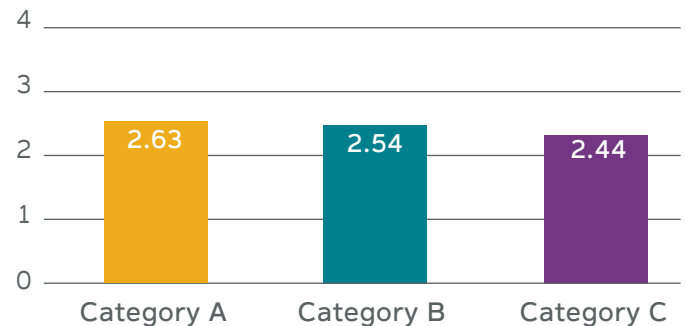
#### Has your institution received an IRS notice regarding Form 1098-T issues within the past three years?



In the survey, 32.98% — virtually one-third — of the participating schools noted that they had received penalty notices from the IRS regarding missing taxpayer identification numbers (TINs) for students on the annual Form 1098-T filings. In June 2015, the Trade Preferences Extension Act of 2015 provided relief from penalties that

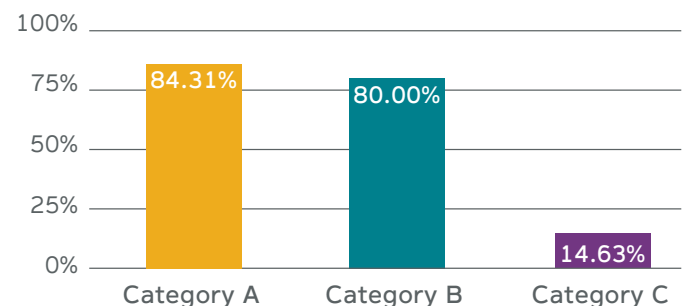
had been assessed for incorrect or missing TINs on Form 1098-T, Tuition Statement by waiving these penalties for tax years 2012, 2013, and 2014. Then, in early 2016, the IRS announced prospective penalty relief in this area for the 2015 tax year (reporting in 2016). In order for an educational institution to "qualify" for this 2015 relief, it must certify, "under penalty of perjury in the form and manner prescribed by the IRS [which has not yet been released] that it properly requested TINs from students."

#### On a scale of 1 to 4, how would you rate your school's budgeting process?



From the pool of all 189 schools that answered this question, the average score was 2.54, or a solid C+. The National Association of College and University Business Officers (NACUBO) has some great information on this subject, as does the American Institute of Certified Public Accountants (AICPA) Not-for-Profit Section. You may want to consider becoming a member of both of these organizations, if you are not already.

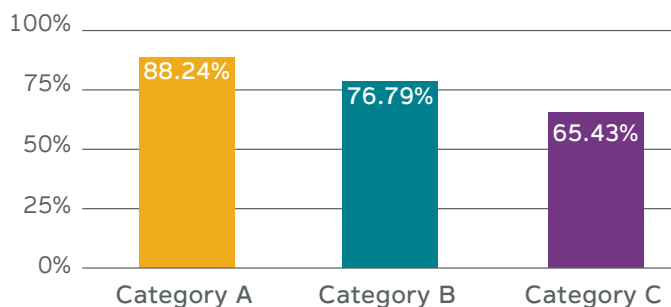
#### Does your institution have a men's and/or women's cross-country team?



As you can see from the great photos throughout this publication, several schools really celebrate their cross-country teams. In fact, of the 188 schools that answered this question, the majority — 52.66% — said they have men's or women's teams, or both. It should be noted that you might have unrelated business income from sponsors

who “advertise” at these meets. Remember to sign up for CapinCrouse’s November 2016 webcast on unrelated business income tax (UBIT) issues if you have questions about this topic. You can register for our free monthly webcasts at [capincrouse.com](http://capincrouse.com).

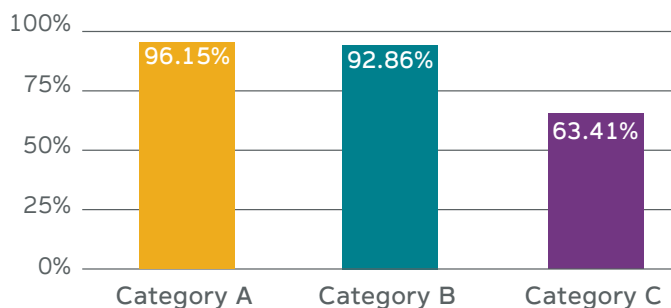
## Do you hire adjunct professors for online courses?



In the survey, a full 75% answered “Yes” to this question. We’d like to mention two issues that you need to track in this area:

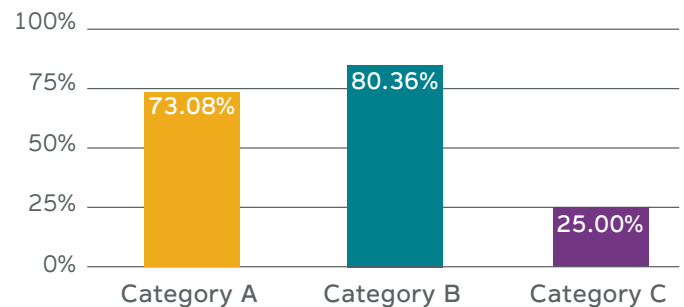
1. State tax issues such as payroll withholding, nexus, sales taxes, state charitable registrations, etc.
2. Affordable Care Act guidelines that allow a default method of calculating an adjunct faculty member’s 30-hour work week by using 2.25 hours of service for each hour of instruction time, plus 1 hour of service for each additional hour the adjunct spends performing other required duties (i.e. required meetings or office hours).

## Does your school file a Form 990?



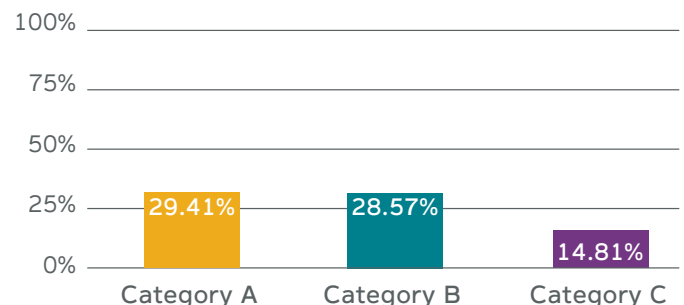
A whopping 81.05% of schools in our 2016 survey reported that they filed Form 990, Return of Organization Exempt from Income Tax. Schools that do not file Form 990 should be aware of potential requirements to file Form 5578, Annual Certification of Racial Nondiscrimination for a Private School Exempt From Federal Income Tax.

## Does your institution file any Form 5500s for retirement or employee benefit plans?



Overall, 54.79% of the 2016 survey participants answered “Yes” to this question. Take care to ensure that you are correctly counting “participants” with regard to Form 5500 filing requirements. In addition, Form 5500 filings can be tricky. The 2015 form instructions are available online at [dol.gov/ebsa/pdf/2015-5500inst.pdf](http://dol.gov/ebsa/pdf/2015-5500inst.pdf).

## Does your institution have any conservation easements or historical structures on campus?



Note that only 22.87% of survey participants stated that they had these items. This seems low. Form 990 Schedule D, Part II requires details regarding them. The reporting is triggered by answering “Yes” on Form 990, Part IV, Line 7, which asks, “Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures?”

### From the Form 990 Glossary:

**Conservation easement.** A restriction (granted in perpetuity) on the use that may be made of real property granted exclusively for conservation purposes. Conservation purposes include preserving land areas for outdoor recreation by, or for the education of, the general public; protecting a relatively natural habitat of fish, wildlife, or plants, or a similar ecosystem; preserving open space, including farmland and forest land, where such preservation will yield a significant



public benefit and is either for the scenic enjoyment of the general public or pursuant to a clearly defined federal, state, or local governmental conservation policy; and preserving a historically important land area or a certified historic structure. For more information see section 170(h) and Notice 2004-41, 2004-2 C.B. 31.



Courtesy of Warner Pacific College, Portland, OR

## Higher Education Tax Briefs

### Are You an “ALE”? (“ALE” Calculations for 2015 and 2016)

We covered this issue in the December 16, 2015, “Tax Tips” post on the Christian Higher Education blog at [abhe.org](http://abhe.org). Posts are also sent via weekly e-blasts, and you can subscribe at [abhe.org/blog/tax-tips-category-page/](http://abhe.org/blog/tax-tips-category-page/). The post is below.

#### Issue

We continually talk with Christian colleges, seminaries, and universities who are under the impression that they are not an applicable large employer (ALE) for purposes of the Affordable Care Act — until they learn more about the ALE calculations...

#### Situation

Troas Bible College (TBC) is a private college and a public charity under IRC section 501(c)(3) and section 170(b)(1)(A)(ii). We sent TBC’s controller, Lisa, an email “heads-up” asking her if TBC was an applicable large employer (ALE) for 2015. She wrote back and said, “No. We are a small employer because we only have 37 full-time employees who work over 30 hours a week.”

We replied that the calculation involved more than just “full-time employees.” This led to a phone call and, when we ran the calculations, TBC had 53 “FTEs” (full-time equivalent

workers). That meant a lot more work for TBC – but they also avoided potentially large penalties.

\*Note that there are transitional rules for 2015 that generally mean that if your 2014 ALE calculation results in 99 or fewer “FTEs” (see below), you might not be an ALE for 2015.

#### Rules (from the IRS website)

##### Identifying Full-Time Employees:

Determining which employees are full-time employees is central to the employer shared responsibility provisions.

An employer must identify its full-time employees to determine:

- If it is an ALE, and, therefore, subject to the employer shared responsibility provisions;
- To whom it must offer minimum essential coverage to avoid an employer shared responsibility payment; and
- The amount of any potential liability for an employer shared responsibility payment. Note that an employer is not obligated to calculate its liability, and should not make a payment without first being contacted by the IRS.

In general, for purposes of the employer shared responsibility provisions, a full-time employee is, for a calendar month, an employee employed on average at least 30 hours of service per week, or 130 hours of service per month.

If you are an applicable large employer, you are subject to the employer shared responsibility provisions and may be subject to one of two potential employer shared responsibility payments for a given month if at least one of your full-time employees received the premium tax credit (PTC) for purchasing coverage through the Health Insurance Marketplace (Marketplace) and for that same month you either: (1) did not offer coverage to at least 95% (70% for 2015) of your full-time employees (and their dependents) or (2) you offered such coverage but at least one of your full-time employees received the PTC (because the coverage was unaffordable, did not provide minimum value, or the full-time employee was not offered coverage). (From IRS Publication 5208, Affordable Care Act: Are you an applicable large employer?)

The Taxpayer Advocate Service has a new Employer Shared Responsibility Provision (ESRP) Estimator at [taxpayeradvocate.irs.gov/estimator/esrp/](http://taxpayeradvocate.irs.gov/estimator/esrp/). You can use it to determine your number of full-time employees, including FTEs, and whether you might be an ALE. If so, it can also help you estimate the maximum amount of your potential liability for the employer shared responsibility payment.

#### Bottom Line

There are numerous misconceptions when it comes to Affordable Care Act provisions and how they might affect Christian colleges, which could cause future anguish and

gnashing of teeth. At the very least, a best practice is to use the "Measurement Method" above to calculate monthly – and ultimately by year – your number of FTEs. Check with your tax advisors for clarification.

## Form 1098-T Reporting Changes

Higher education institutions will no longer have the option of reporting **amounts billed** on IRS Form 1098-T, Tuition Statement, after 2015. The change is effective for tax year 2016 forms, generally filed in 2017. All institutions will be required to report payments for qualified tuition and related expenses.

Beginning with the 2016 tax year, institutions will be required to report payments for qualified tuition and related expenses in Box 1 of IRS Form 1098-T. There will no longer be an option to report amounts billed for qualified expenses in Box 2.

The new ruling comes in the form of PATH Act of 2015 Section 212, which amends I.R.C. section 6050S (b)(2)(B)(i). Many higher education institutions are concerned with the changes required to their reporting systems and that 2016 has already begun with no guidance in sight from the IRS. As NACUBO noted,

These are the very same issues that we have raised with Treasury officials and Hill staff on the tax writing committees for the past several years. They don't seem to understand that forcing Box #1 reporting doesn't necessarily generate a more perfect picture of what a student paid for qualified tuition and related expenses. In seeking a fictional "plug and play" solution to taxpayer confusion surrounding 1098-Ts and what number to include on the individual's tax return, they have created another whole set of struggles for colleges and universities that will only add to existing taxpayer confusion and noncompliance.

On April 27, 2016, the IRS issued Announcement 2016-17, in which it agreed to waive any penalties for the 2016 Form 1098-T with regard to the "Box 1" issue. The IRS cited student account changes, training requirements, and form testing as reasons for the waiver. Announcement 2016-17 states:

Following the enactment of PATH, numerous eligible educational institutions informed the IRS that implementation of the law change will require computer software reprogramming and other changes that cannot be implemented in time to meet the applicable filing and furnishing due dates for Form 1098-T for calendar year 2016.

In light of this, the IRS will not impose penalties under section 6721 or 6722 with respect to 2016 Forms 1098-T solely because the eligible educational institution reports the aggregate amount billed for qualified tuition and related expenses for the 2016 calendar year. Thus, eligible educational institutions will continue to have the option

of reporting either the amount of payments of qualified tuition and related expenses received or the amount of qualified tuition and related expenses billed for the 2016 calendar year without being subject to penalties.

## State Charitable Registration

An area that frankly is ignored by many higher education institutions is state charitable solicitations. It seems that many accounting departments we speak with have their heads in the sand on this issue, to some extent.

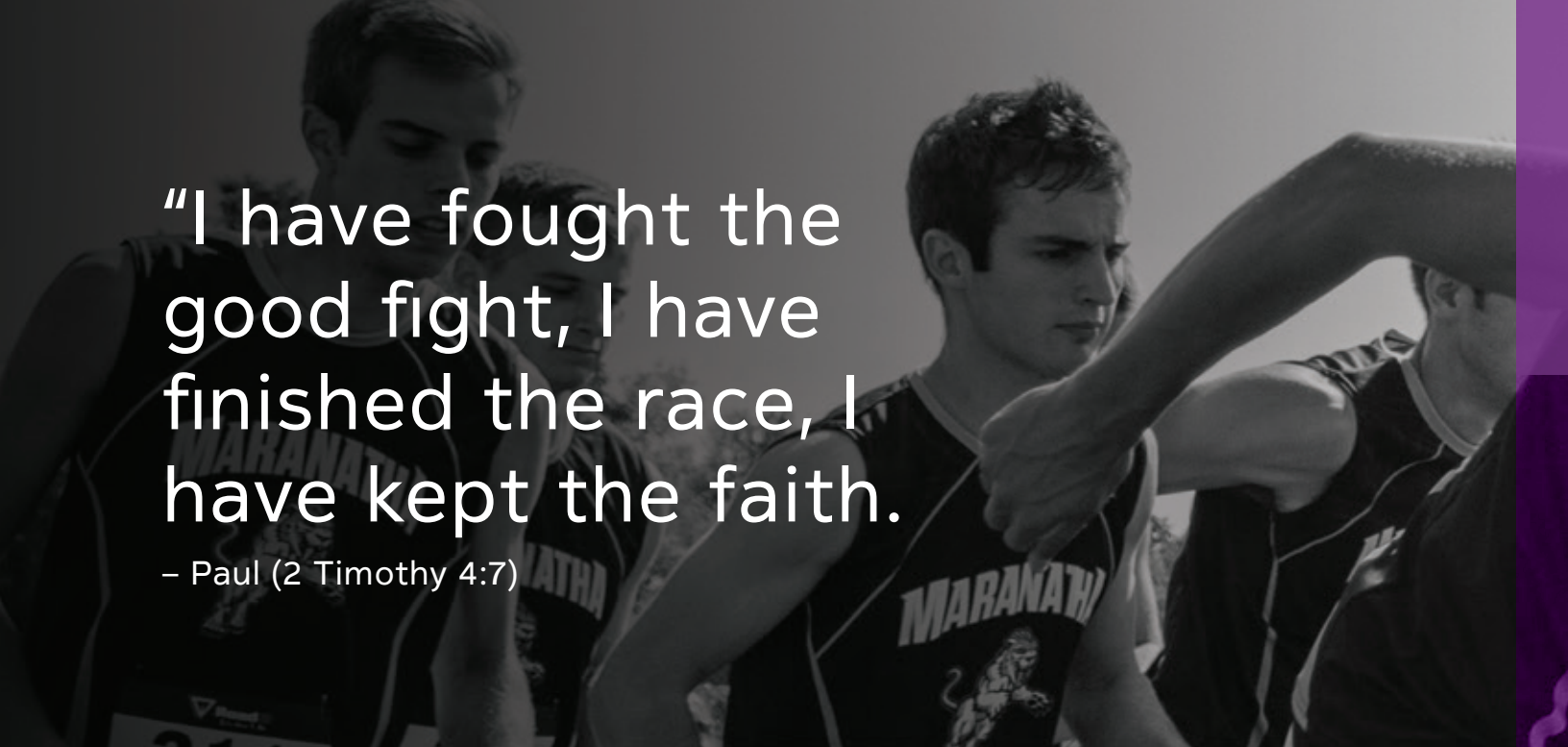
It is true that on the surface, the majority of states/jurisdictions exempt educational institutions from the charity registration requirements of the jurisdiction. However, the exemption is not automatic in many states. If we include Washington, D.C., there are 51 jurisdictions in the state registration game. Twelve states have no state charitable registration requirements, while 32 states have educational institution exemptions — and this is subject to constant change. But in most "educational exempt" states, the exemption is subject to change if you hire a professional fundraiser.

To be safe, your school should look at filing one-time letters (or state-prescribed forms) in those states to ensure exemption. That leaves seven states you may have to file with annually, but some of them have thresholds that may preclude the requirement to file annually. For example, Colorado does not require annual filing for charitable organizations that do not intend to and do not actually raise or receive gross revenue (excluding grants) in excess of \$25,000 during a fiscal year or do not receive contributions from more than ten persons during a fiscal year.

We would love to talk further with you about this issue. Please contact us at [collegetax@capincrouse.com](mailto:collegetax@capincrouse.com).



Courtesy of Dallas Baptist University, Dallas



“I have fought the  
good fight, I have  
finished the race, I  
have kept the faith.

– Paul (2 Timothy 4:7)

## 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](http://capincrouse.com).

## Higher Education Team

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