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Tax Code Infringements of Colleges, Universities

One problem many colleges and universities pose to the IRS is the possible tax code infringements they commit. The IRS has recently made public a report based on the feedback they received on a survey on 400 colleges and universities about their business ventures and how much they pay their executives. This survey was conducted in 2008 with the aim of looking into whether the colleges and universities financial activities are properly reflected in what they declare in their tax returns to the IRS.

The IRS is mainly concerned over 2 matters. Firstly, that the colleges and universities are earning revenue from their varied business activities that they are not accurately reporting in their tax returns. And secondly, how the colleges and universities are setting the salaries of their key executives.

The IRS has already begun audits on 30 of the colleges and universities who have answered the survey and started examining the 13 that did not respond to the survey and an undisclosed number of other institutions that did.

One major issue that surfaced in the survey was that many colleges and universities are involved in businesses that earn money which they have not declared in their tax returns. The survey has revealed that 45% of the colleges with more than 15,000 students have either a controlling interest in separate commercial businesses (such as a company to develop commercial applications for research) or nonprofit organizations (such as a foundation). But only 26% of them reported their income from such an entity.

Many of the colleges and universities provide value-added services such as bookstores and food services. And many also rent out parts of their building space for extra income. The tax code states that any revenue from such activities are tax-exempt if they are related to the core activities of the college/university or if these activities do not make money. But if otherwise, then the colleges and universities concerned must report their revenue. However, the survey found that nearly half of the colleges with such activities never reported them.

Another finding of the survey was that 60% of the colleges and universities do not engage independent experts to consult on reporting the above matters.

The other major matter that is of concern to the IRS is how much the colleges and universities pay their top executives like the president and chancellor. According to the tax code, the salary must not be above comparable amounts for similar positions in similar institutions.

45% of small colleges and 38% of the largest colleges and universities in the survey do not use the IRS's suggested procedures for determining the wages of their key executives.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.