

# Unallowable and Restricted Expenditures Procedure

<b>Effective Date</b>	<b>April 8<sup>th</sup>, 2025</b>
<b>Last Revised</b>	<b>March 2013</b>
<b>Review Date</b>	<b>April 8<sup>th</sup>, 2025</b>
<b>Responsible Party</b>	<b>Business Services, Financial Services &amp; Payroll</b>

## **I. Introduction and Purpose**

These procedures are implemented to ensure compliance with State and Federal laws and regulations. To ensure compliance with these requirements, employees must adhere to the following policies and applicable procedures.

This section establishes procedures related to awards and other gifts presented on behalf of the University, including funding and tax implications of such gifts. Award and gift recipients covered in this section include faculty, staff, students, and non-employees.

## **II. Procedures**

### **A. Determining applicability**

1. Department Heads, Deans, and VCs authorized to approve gifts or awards must determine that the item is directly related to an objective of the unit and evaluate the importance of the purchase in terms of cost versus benefits and alternatives that would be equally effective.
2. It is understood that MSUB business requires some gift or award expenditures. However, in all cases, in addition to compliance with procurement and expenditure policies, there must be a legitimate and documented business purpose for the expenditure that indicates a benefit to the University.
3. Payments or gifts not covered by these procedures:
  - a. De minimis non-cash, non-gift card or certificate items that are \$25 or less, such as pens, cups, posters, T-shirts, etc., that are given for the purpose of

marketing or recruiting prospective students are considered ordinary business expenses and are not included in these procedures.

- b. Professional Items given to employees through Staff Senate or Orientation may be allowed at a De minimis non-cash, non-gift card or certificate items that are \$25 or less.
- c. Employment-based, performance payments. These must be processed through MSUB Payroll.
- d. Payments for services provided to the University by non-employees.
- e. Payments to research subjects. These are payments for services.

#### B. General Requirements

1. Typically, gifts and awards should only be given for MSUB-sanctioned programming, such as MSUB Staff Appreciation Awards and length of service awards.
  - a. Supervisors may inquire with the Chancellor or their respective vice chancellors about alternative funding or reimbursement for retirement, receptions, or similar events
2. Gifts and awards are limited to an equivalent value of \$75 or less per qualifying event. Gift expenditures over \$75 must be approved by the Chancellor or the appropriate Vice Chancellor.
3. Due to IRS requirements, MSUB- awards of \$600 annually per recipient and cash or cash equivalent awards and gifts for employees, no matter the value, are always taxable and reportable.
4. Cash and non-cash awards and gifts are subject to Federal and State taxes and may be reportable on Form W-2 (employees), Form 1099-MISC (non-employees), or Form 1042-S (nonresident aliens). Consult with Business Services or Payroll to determine applicability.
5. The purchase and the reimbursement for a gift or award must be handled through an approved payment processing method with a valid business purpose and supporting documentation.
6. Gifts or awards allowable under these procedures cannot be purchased or reimbursed with sponsored program funds.
7. Unallowable gifts include those to honor individuals for personal, non-work-related achievements or events such as birthdays, holidays, Administrative Professional's Day, weddings, baby showers, housewarming, termination of employment that is not retirement, etc.
8. Documentation for awards and gifts should be maintained within the campus department to support distribution of the awards and gifts in the event of an audit or review unless, considering the de minimis nature where the value and the frequency with which the gifts are provided are so small as to make accounting for them unreasonable or impractical.

9. Campus departments giving awards or gifts are responsible for communicating with the Accounts Payable and the Payroll Offices when an award or gift is reportable. Form must be complete, legible, and submitted with expense forms (BPA or Chrom River Expense) – [Gifts/Awards Form](#)

C. Cash and Cash Equivalent Gifts, Awards, and Prizes (Account Code 62811)

1. Gifts of these types, to include gift certificates and gift cards, are always considered cash, per Federal tax law.
2. Cash or cash equivalent awards and gifts for employees, no matter the value, are reportable to the IRS by the MSUB Payroll Office.
3. Cash or cash equivalent awards and gifts for non-employees that total more than \$600 annually are reportable to the IRS by Accounts Payable.
4. Go to Gift Card or Gift Certificates (item I below) for details.

D. Employee Award and Gift Considerations (Account Code 62811)

1. Length of Service Awards

- a. University-wide recognition program for employees celebrating milestone anniversaries beginning at 5 years of service, and continuing at 5-year increments, is administered by the Chancellor's Office.
- b. Non-cash or cash equivalent awards given under this program meet the specific requirements of the Internal Revenue Code (IRC) to qualify as achievement awards that are non-taxable to the employee.
- c. Awards or gifts to individuals by departments using University or sponsored program funds for length of service are not allowed.

2. Retirement Gifts

- a. Retirement gifts for individuals who have at least 5 years of service to MSUB may be approved by the appropriate Chancellor or Vice Chancellor.
- b. Sponsored program or Facilities & Administration (F&A or IDC) funding may not be used for these expenses.
- c. It is recommended that retirement gifts be in the form of tangible personal property.

A. Tangible personal property does not include cash, cash equivalents, gift cards, gift coupons, most gift certificates, vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, or similar items.

- d. Under IRC Section 132(e) an employer may give a tangible personal property retirement gift of nominal value on a tax-free basis. The University has established its nominal value to be \$75 or less.

3. Personal cards, flowers, gifts, etc. are not allowed.

E. Student Award and Gift Considerations (Account Code 62811)

1. Gifts of tangible personal property may be given to students for academic or other University achievement, recognition, or competition, or as part of campus student-life events.
2. Gifts of parking permits may be purchased from student club accounts and given as a student promotional giveaway/raffle; per procedures section B2, gifts over \$75 need to be approved by the appropriate Vice Chancellor.
3. Gifts of cash or cash equivalents are not allowed. Gift cards are not acceptable.
4. Gifts given to students may impact the student's financial aid package and/or NCAA eligibility for student-athletes. Please consult with Financial Aid and/or University Athletics prior to making the award available to the student.
5. Expenditures for gifts given to students must be properly substantiated with appropriate documentation with the Chrome River expense report or BPA.

F. Non-Employee Award and Gift Considerations (Account Code 62811)

1. Non-employee awards and gifts are gifts given to recipients such as donors, potential donors, visiting dignitaries and scholars, volunteers, community members, elected and appointed officials, students, and research participants, and may include the following:
  - a. An award for promotional gifts
  - b. Gifts presented as a token of appreciation for, or in recognition of, service to the University
  - c. Gifts presented for meritorious academic achievement
  - d. Gifts of cash or cash equivalents are not allowed--gift cards are not acceptable
2. Such gifts must be approved by the Chancellor or the appropriate Vice Chancellor. The authorization must be documented and accompany the Chrome River expense report or BPA.

G. Dual Status as Employee and Other Status

1. If the gift recipient has a status as both a non-employee (such as a student or volunteer) and an employee, a determination must be made as to whether the presentation of the gift is dependent on the individual's employment relationship with the University.
2. If the gift is not in any way dependent on the recipient being employed by the University, the gift will be treated as a non-employee transaction.
3. If the gift relates to the employee's employment with the University, the gift will be treated as an employee gift.

#### H. Gift Cards or Gift Certificates (Account 62868)

1. University funds, including those held in agency accounts, may not be used to purchase gift cards or gift certificates.
2. If University funds are used in any fashion, even with being reimbursed by the Foundation etc. documentation is required.
3. All payments for work or services must be paid through Payroll or Accounts Payable, as applicable.
4. Gift Cards or Gift Certificates for Research or Survey Participants are allowed; however, they are subject to the requirements below:
  - a. Payments to participants of MSUB-related research or survey projects may be compensated with cash or a gift card; however, such compensation may be taxable income to the recipient.
  - b. The use of cash or gift cards as incentives or awards for external or university sponsored project participants must have approval through the Grants & Sponsored Programs Office.
  - c. The department or Principal Investigator (PI) must document all compensation received by such individuals.
    - A. [The Gift Card Form](#) must be completed and attached to the P-card expense in Chrome River, as applicable, and the department must collect a W-9 form at the time of gift card distribution if there is any indication that an individual might receive over \$600 in gift cards during the year.
    - B. If the total gift card amount exceeds \$600 within a calendar year for any individual, the department must collect a W-9 from that individual and report this information to the Business Services Office for Form 1099 reporting.
    - C. For researchers who need to ensure the anonymity of study participants, the signature of two MSUB employees can replace the signature and name of the study participant on the Gift Card Form.
    - D. Where anonymous participation is considered vital to the study, staff should document the nature of the study in detail and ensure an adequate audit trail is documented for how payments were utilized.
5. Research participants who are also university employees
  - a. Such individuals will be treated the same as non-employees, provided all the following conditions are met:
    - A. The employee's participation is voluntary and not part of the employee's official university duties.

- B. The employee's participation is on the employee's own time.
- C. The employee does not perform any service while participating in the research study that would be performed during the employee's regular university responsibilities.
- D. The employee is not receiving additional benefits when compared to the other participants.
- E. If all four conditions are not met, any payments to the employee must be reported to the Payroll Office so that these payments will be included on the employee's W-2 and applicable taxes will be withheld.

6. Control of Gift Cards

- a. Gift Cards shall be kept under lock and key and accounted for at all times to ensure proper physical security and to protect from theft and loss. Access to the gift cards and keys to the secure areas should be limited to the individual(s) responsible for the safekeeping of the gift cards.
- b. Gift Cards should be distributed to the recipients within 30 days of purchase.
- c. It is not permissible to charge the university for gift cards that have not been used for the project.
- d. When unused cards exist, the department should try to return the gift cards to the vendor and obtain a refund.
- e. If Gift Cards are provided by an outside source to any department of MSUB, MSUB must follow the Gift Card policy. Refer to the outside vendor if documentation is required.

I. Clothing (Account Code 62203, (Athletics use Account Code 62202))

- 1. Clothing purchases are considered income per IRS guidelines and are subject to tax rules. To truly be classified as a uniform, two conditions must be met to avoid taxation:
  - a. Must be worn as a condition of employment
  - b. Not suitable for everyday wear
- 2. Examples of allowable clothing purchases include University Police or Facilities Services uniforms.
- 3. Generally, purchasing clothing for faculty, staff, and students is not allowable. Shirts (i.e. polos, t-shirts, etc.) containing the MSUB logo worn as a uniform for a specific event(s), recruiting events, or other activities requiring program identity would be allowable from sources other than restricted funds. These clothing items should not be worn outside of the specific event(s) for which they are purchased.

4. When making purchases for clothing, the Business Office/Payroll Office will require the following supporting documentation to substantiate the expense:
  - a. Business Purpose/Justification, clearly indicating how the purchase qualifies as a uniform
  - b. [Uniform Tracking Form](#) under "Other Payroll Forms" on the Payroll Intranet
  - c. Complete list of recipients and dollar value of item(s)
5. Purchases should be charged to the account code 62203
6. Clothing purchases that do not qualify as a uniform will be considered a gift and therefore taxable to the recipient. Contact the Payroll Office.

### **III. Definitions**

- A. A student is any currently enrolled individual who holds temporary, part-time, full-time, undergraduate and/or graduate status.