OPERATING POLICY AND PROCEDURE

OP 62.25: Participant Payments

DATE: October 3, 2016

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to establish procedures for payments made by Texas Tech University (TTU) to individuals involved in projects, surveys, or studies and to ensure compliance with federal income tax withholding requirements and proper reporting of payments to the Internal Revenue Service (IRS).

REVIEW: This OP will be reviewed in April of odd-numbered years by the Managing Director of Payroll and Tax Services (PTS), the Managing Director of Procurement Services, the Managing Director of Accounting Services, and the Managing Director of University Financial Services with substantive revisions forwarded to the Associate Vice President for Research, the Assistant Vice President and Controller, and the Vice President for Administration & Finance and Chief Financial Officer.

POLICY/PROCEDURE

1. General

   a. Participant payments are those payments made by TTU to individuals to compensate them for participation in approved projects, surveys, or studies.

   b. Participant payments made to individuals who are not United States citizens or permanent resident aliens ("nonresident aliens") are subject to 30 percent withholding tax at the time of payment, regardless of amount. Payment must be made by check so that the required tax can be withheld.

2. Types of Payments

   a. Check or ACH Payments (preferred method)

      All participant payments utilizing the TechBuy system shall be submitted on the Direct Pay form. The information required to complete a Direct Pay request is collected on the Recipient Information form (Attachment A). The Recipient Information form shall be attached to the requisition for each participant. The form shall be retained on file by the principal investigator (PI) or respective department for three years plus the current fiscal year (or longer if required on sponsored project funds by an external agency or by an active institutional review board protocol [IRB]; which requires retaining the form for three years following termination of IRB approval) after the final technical and financial project reports have been submitted; however, after the check payment request or cash advance reconciliation has been submitted, any SSN/TIN information should be redacted from the forms that are retained by the PI or department.
A check payment requires TTU to collect tax identification information as indicated above for payment processing. If individual payment has an approved Institutional Review Board Determination Letter (see section 3.c. below) or single participant payments of $25 or less, a cash or cash equivalent payment will need to be utilized.

In order to expedite payments, a participant may establish a direct deposit account with TTU by preparing the Vendor Setup Form

b. Cash

Cash advances are obtained from University Financial Services for participant payments by completing a Request Cash Advance for Participant Payments form (Attachment C). The cash must be distributed to the participants and properly reported within two weeks from the date the cash advance was obtained or two weeks after return to headquarters if the projects, surveys, or studies were conducted away from headquarters. Failure to comply with the return of funds or two-week reporting deadline may result in the denial of future advances requested by the department.

Participants who receive cash payments are expected to complete the Recipient Information form. Participants who are being paid $25 or less are not required to provide their SSN on either form. (See retention requirements above in section 2.a.).

Nonresident aliens may not be paid with cash. Nonresident aliens must be paid by check through TechBuy so that federal income tax can be properly withheld, reported, and submitted to the IRS in a timely manner. However, payments to individuals who are residents of countries other than the U.S. for research performed outside of the U.S. are not subject to U.S. reporting and tax withholding rules; therefore, such payments are not subject to the requirements in this section (2.b).

After the cash is distributed to the participants, a Direct Pay form should be submitted through TechBuy with the vendor “AR University Deposits” to reimburse the cash advance. The Cash Advance Reimbursement Reconciliation for Participant Payments spreadsheet (Attachment D), the Recipient Information form, and other required forms should be attached to the requisition to reconcile the cash advance disbursement.

c. Cash Equivalent (Gift Card or Gift Certificate)

A cash advance may be obtained to purchase gift cards or gift certificates (“cash equivalent”) with prior approval from PTS. The cash equivalent must be distributed to the participants and properly reported pursuant to section 2.b. above within two weeks from the date the cash advance was obtained or two weeks after return to headquarters if the projects, surveys, or studies were conducted away from headquarters. Repayment is required of any undistributed gift cards/gift certificates. Repayment of unused cash equivalent funds is the responsibility of the employee requesting the cash advance. Unused amounts cannot be paid back with TTU funds.

If approved and purchased in advance, cash equivalents may be purchased on a Pcard or through TechBuy with documented approval from PTS. If purchased upon completion of a study, electronic gift cards/certificates offered by online vendors (for example, Apple) are allowed, as long as the number of participants is known.
Nonresident aliens may not be paid with cash equivalents and must be paid via TechBuy so that federal income tax can be properly withheld, reported, and submitted to the IRS.

d. Non-Cash Items

Non-cash items (such as MP3 players, PDAs, etc.) may not be provided to participants as means of compensation for participation in a research project, survey, or study unless approved by PTS prior to the initiation of the project. Documentation of PTS approval must be attached to the TechBuy requisition for the non-cash item. Pcards may not be used for the purchase of non-cash items.

If a non-cash item is provided to a participant who is a nonresident alien, a FOP (cannot use federal funds) will need to be provided to PTS to pay the applicable tax on behalf of the nonresident alien (current gross-up tax rate is 42.8% of the fair market value of the non-cash item).

3. Compliance

a. Nonresident Alien Withholding

Payments to nonresident aliens (individuals who are not US citizens, permanent resident aliens, or resident aliens for tax purposes), regardless of the amount, are subject to 30 percent federal income tax withholding. At the time the payment is processed to these individuals through TechBuy on the Direct Pay form, 30 percent federal tax withholding will be deducted from the amount of the payment. Failure to withhold or report taxes withheld in a timely manner could result in IRS penalties assessed in the case of an audit finding. Any penalties assessed by the IRS due to non-compliance will be charged to the respective department conducting the research/study.

b. Payments to Employees

Payments made to an employee who is participating in a research study will be treated the same as payments made to a non-employee, if all of the following conditions are met:

(1) The employee’s participation is voluntary and not part of his/her normal duties;
(2) The employee’s participation is on his/her own time;
(3) The employee does not perform any service while participating in the research study that would be performed in the course of his/her regular duties; and
(4) The employee is being paid the same as all other participants of the study, with no added benefits for participating.

It is the responsibility of the department conducting the research/study to assure that these conditions are met. If all of the conditions are satisfied, payment can be made according to the provisions of this policy. If any condition is not satisfied, the payment must be processed by submitting a request through the Employee One-Time Payment System (EOPS), utilizing earn code OTB. Payment will be reflected on the employee’s next scheduled paycheck with applicable employment taxes withheld and it will be reported on Form W-2 after calendar year end.

All projects that involve human subjects must be approved by the Institutional Review Board (IRB) for the Protection of Human Subjects in Research prior to initiation of the projects (see OP 74.09).

In certain circumstances, studies may require that the privacy of the participants be protected. If the IRB approves in advance the study is anonymous in nature, no more than minimal risk, or contains sensitive private information, it is not necessary to identify the participant by name or SSN/ITIN. In these cases, participants are identified with control numbers. A spreadsheet of control numbers and a copy of the Institutional Review Board Determination Letter must be attached to the cash advance reconciliation or gift card purchase to evidence the number of participants paid. This documentation must be retained by the department for a period of three years (or longer if required by a sponsored project agency) after all technical and financial project reports have been submitted.

For studies that require privacy, an individual must sign a Private Studies – Participant Agreement form (Attachment B) in order to be a participant. If an individual does not wish to provide his/her name, the Private Studies – Participant Agreement form can be signed with just his/her first name and/or initials. The Private Studies – Participant Agreement form must state that any payments received are taxable income to be reported by the recipient on his/her individual income tax return and that the individual agrees to limit his/her compensated involvement in TTU, or related entities, projects to a total amount of less than $600 received during a calendar year. The Institutional Review Board Determination Letter is required.

Participants may be given the opportunity to participate without receiving payment if they do not wish to provide identifying information.

Attachment A: Recipient Information form
Attachment B: Private Studies – Participant Agreement
Attachment C: Request Cash Advance for Participant Payments
Attachment D: Cash Advance Reimbursement Reconciliation for Participant Payments
Attachment E: Institutional Review Board Determination Letter Involving Payments to Participants over $25