

BOARD OF REGENTS

EASTERN MICHIGAN UNIVERSITY

SECTION: **3**

DATE:

March 20, 2007

RECOMMENDATION

IRS AUDIT

ACTION REQUESTED

It is recommended that the IRS Audit be received and placed on file.

STAFF SUMMARY

The IRS came to the University to perform an audit for the years 2002-2004. They focused their audit on five areas: FICA/Medicare paid from student employees' wages, taxability of the President's residence, taxes paid on awards and trophies, taxes withheld for payments to non-corporate vendors, and back-up withholding on amounts paid to foreign vendors.

The University has taken steps to ensure that policies and procedures have been changed to prevent these findings from reoccurring in the future. Commencing half-way through 2003 the University began withholding FICA/Medicare from all student employment wages required by the law. When providing off-campus housing supplemental wages to an employee, taxes will be withheld. The University is reviewing all awards that come to Accounts Payable and withholding the appropriate taxes. When paying a non-corporate or a foreign vendor, a Form W-9 is received and put on file before payment is made to the vendor.

FISCAL IMPLICATIONS

Fines assessed totaled \$19,400. Back-taxes payable per the audit are \$435,154. The University is pursuing the 120 non-corporate vendors, identified through the audit, for verification that they paid taxes on the revenue that was sent to them by the University, which if successful will reduce the tax liability by \$210,598.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date

Internal Revenue Service
Federal State and Local Governments

Department of the Treasury

Date: January 30, 2007

EASTERN MICHIGAN UNIVERSITY
104 Hoover St.
Ypsilanti, MI 48197

Letter Number: 1002 (DO)

Tax Return:
945

Tax Period:
12/31/2003, 12/31/2004

Name of Examiner:
Brian Blake
Contact Person:

Brian Blake

Employee Identification Number
38-6005986

Contact Telephone Number:
231-932-2063

Contact Telephone Hours:
8:00 a.m. - 4:30 p.m.

Dear EASTERN MICHIGAN UNIVERSITY:

We have reviewed and accepted the examination report our examiner previously discussed and left with you. The report included changes to your tax return for tax period 12/31/2003, 12/31/2004

If you have any questions, please call the contact person whose name and number are shown above.

Sincerely yours,

Sunita B. Lough, Director
Federal State and Local Governments



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Washington, DC 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

Eastern Michigan University Attn: Daniel B. Cooper, CMA 107 Welch Hall Ypsilanti, MI 48197	CONTACT INFORMATION:
	Internal Revenue Service 3241 Racquet Club Drive Traverse City, Michigan 49684
	Telephone Number: Voice (231) 932-2063 Fax (231) 932-2060
	Examiner: Brian Blake ID #38-04340 SE:T:E:FSL:O:7253 Date: 12/5/2006

Dear: Mr. Cooper,

Enclosed are revised examination reports which represent our findings with respect to the employment tax examination of Eastern Michigan University for the years 2002, 2003, and 2004. This package of reports and information supersedes that package included with my November 17, 2006 letter. The revised Form 4666, Summary of Employment Tax Examination, reflects the total delinquent tax for each year with respect to forms 941 and 945. There are five forms 4668, Employment Tax Examination Changes Report, included which reflect proposed adjustments for additional wages in 2002, 2003, and 2004 and proposed changes for backup withholding in 2003 and 2004. The totals on each form 4668 will reconcile to the summary form 4666. An explanation is attached to each form 4668 which describes the wage adjustments and those entities for which backup withholding was assessed.

Subsequent to assessment, you may obtain abatement of the portion of the assessment related to federal income tax withholding and backup withholding to the extent you secure correctly completed forms 4669, Statement of Payments Received, and submit them with form 4670, Request for Relief from Payment of Income Tax Withholding. When filing forms 4670 and 4669, a copy of the form 4668 and attachments showing the vendors for which backup withholding was assessed should also be submitted.

Form 4666 does not reflect the assessment of penalties for failure to file and furnish information returns. A penalty equal to \$100 for each return required and not filed and furnished will be assessed separately. The total penalty for 2003 is \$7,700 and for 2004 it is \$11,700, a computation is attached.

Form 4549, Income Tax Examination Changes, is also enclosed and reflects the withholding tax determined to be applicable related to payments to foreign persons. It also reflects an Internal Revenue Code section 6651(a) penalty in 2003 equal to 10% as this return was filed late. Interest computed to 12/8/2006 is also reflected.

There are two forms 2504, Agreement to Assessment and Collection of Additional Tax and Acceptance of Overpayment, enclosed. If you agree with the proposed adjustments related to forms 941 and 945, a person with proper authority must sign, date and return both forms. In addition, if you agree with the proposed adjustment

Internal Revenue Code section 6721 & 6722 Penalties

Internal Revenue Code, (IRC), section 6721 and 6722 imposes a penalty for failing to file and furnish information returns. It was determined that there was a failure to file forms 1099MISC to individuals and businesses in 2003 and 2004. IRC section 6041 requires an information return be filed when certain conditions are met. In addition, IRC section 6721 and 6722 also imposes a penalty for failing to file and furnish form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.

The penalty for 2003 is computed as follows:

Forms 1099MISC - Individuals:	11	
Forms 1099MISC - Businesses:	52	
Forms 1042-S Foreign Persons:	14	
Total forms required to be filed and furnished	77	
The 2003 penalty computation is as follows:		
Failure to File Information Returns (IRC 6721)	77	
Penalty Amount	<u>\$50</u>	
Total penalty Failure to File		\$3,850
Failure to Furnish Information Returns (IRC 6722)	77	
Penalty Amount	<u>\$50</u>	
Total penalty Failure to Furnish		<u>\$3,850</u>
Total IRC 6721 & 6722 penalty in 2003		\$7,700

The penalty for 2004 is computed as follows:

Forms 1099MISC - Business & Individual:	110	
Forms 1042-S Foreign Persons:	7	
Total forms required to be filed and furnished	117	
The 2004 penalty computation is as follows:		
Failure to File Information Returns (IRC 6721)	117	
Penalty Amount	<u>\$50</u>	
Total Penalty for Failure to File		\$5,850
Failure to Furnish Information Returns (IRC 6722)	117	
Penalty Amount	<u>\$50</u>	
Total Penalty for Failure to Furnish		<u>\$5,850</u>
Total IRC section 6721 and 6722 penalty in 2004		\$11,700

Form **4549**
(Rev. March 2005)

Department of the Treasury-Internal Revenue Service
Income Tax Examination Changes

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Name of Taxpayer
Alpena Community College

Taxpayer Identification Number
38-2310748

Return Form No.:
1042

17. Penalties/ Code Sections	Period End 2003	Period End 2004	Period End
a. IRC section 6651(a), Failure to File and Pay Tax	605.60	None	
b.			
c.			
d.			
e.			
f.			
g.			
h.			
i.			
j.			
k.			
l.			
m.			
18. Total Penalties	605.60	0	
Underreporter attributable to negligence: (1981-1987) A tax addition of 50 percent of the interest due on the underpayment will accrue until it is paid or assessed.			
Underreporter attributable to fraud: (1981-1987) A tax addition of 50 percent of the interest due on the underpayment will accrue until it is paid or assessed.			
Underreporter attributable to Tax Motivated Transactions (TMT). The interest will accrue and be assessed at 120% of the underpayment rate in accordance with IRC §6621(c)			
19. Summary of Taxes, Penalties and Interest:			
a. Balance due or (Overpayment) Taxes - (Line 16, Page 1)	6,056.00	5,842.29	
b. Penalties (Line 18) - computed to	605.60		
c. Interest (IRC § 6601) - computed to 12/8/2006	1,209.54	744.27	
d. TMT Interest - computed to (on TMT underpayment)			
e. Amount due or (refund) - (sum of Lines a, b, c and d)	7,871.14	6,586.56	

Other Information:

This report supersedes the report dated 11/16/2006
Internal Revenue Code section 6651(a), Failure to File Tax Return or to Pay Tax, is applicable in 2003. The penalty is 5% per month or portion of a month that a return is late filed. The 2003 form 1042 was due March 15, 2004 and was filed April 20, 2004. This return is considered to be filed two months late and a penalty equal to 10% of the balance due is applicable.

Examiner's Signature:	Employee ID: 38-04340	Office: FSLG - Central Division	Date: 12-4-06
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Consent to Assessment and Collection- I do not wish to exercise my appeal rights with the Internal Revenue Service or to contest in the United States Tax Court the findings in this report. Therefore, I give my consent to the immediate assessment and collection of any increase in tax and penalties, and accept any decrease in tax and penalties shown above, plus additional interest as provided by law. It is understood that this report is subject to acceptance by the Area Director, Area Manager, Specialty Tax Program Chief, or Director of Field Operations.

PLEASE NOTE: If a joint return was filed, BOTH taxpayers must sign

Signature of Taxpayer	Date:	Signature of Taxpayer	Date:
By:		Title:	Date: