

Seven Things University Internal Auditors Need to Know About University Taxes

1. Tax Risk Is Decentralized—Even If Responsibility Isn't

Tax compliance rarely lives in one office. Activities that create tax exposure (auxiliary services, research contracts, athletics, conferences, sponsorships, international programs) are spread across campus.

Internal audit's value: Identify where tax-relevant activity occurs outside finance and whether those areas know when to flag issues.

2. Unrelated Business Income (UBI) Is Broader Than Most People Think

UBI isn't just obvious "side businesses." It can arise from:

- Advertising and sponsorships
- Facility rentals
- Royalties tied to services
- Conference and event revenue
- Certain research and testing activities

Audit focus: Are departments analyzing revenue streams—or assuming "we're tax-exempt, so it's not taxable"?

3. Sales Tax Risk Often Exceeds Income Tax Risk

Sales and use tax exposure frequently dwarfs federal income tax risk because of:

- Multi-state activity
- Complex exemption rules
- Procurement errors
- Decentralized purchasing

Internal audit insight: One missed exemption or incorrect taxability determination can scale quickly across hundreds of transactions.

4. Employee vs. Independent Contractor Classification Is a Persistent Weak Spot

Universities regularly engage:

- Adjuncts
- Guest lecturers
- Consultants
- Researchers
- Performers and speakers

Misclassification creates **payroll tax, penalty, and reporting exposure**—often retroactively.

Audit question: Is there a consistent, documented classification process, or are decisions made ad hoc?

5. International Activity Introduces Layered Tax Complexity

With visiting scholars, international students, overseas programs, and global research, universities face:

- Withholding obligations
- Tax treaties
- Reporting requirements (Forms 1042/1042-S)

Internal audit role: Confirm that immigration status, tax withholding, and reporting are aligned—not handled in silos.

6. Information Reporting Is a Compliance Minefield

Forms like:

- 1099-NEC
- 1099-MISC
- 1042-S

are often driven by **data quality**, not just tax rules.

Audit angle: Are systems capturing the right data at the front end, or is compliance dependent on manual cleanup at year-end?

7. Documentation Matters as Much as the Tax Position

In audits (IRS or state), universities don't lose because the tax law is unclear—they lose because:

- Decisions weren't documented
- Policies weren't followed consistently
- Rationale lived in someone's head

Internal audit contribution: Evaluate whether tax-related decisions are defensible, repeatable, and documented.

Bottom Line for Internal Auditors

You don't need to be a tax expert to audit tax risk effectively. What matters most is:

- Knowing where tax risk hides
- Understanding how decisions are made
- Assessing whether controls are proactive or reactive

Ask me for a One Page Checklist and how this all aligns with IIA Standards (IPPF).

Just send an email to Steve@TheTaxTranslator and I'll drop it in your email box.