



## Statewide Accounting Policy & Procedure

<b><u>Accounting Manual Reference:</u></b> Section: Financial Accounting and Reporting Policies & Procedures Sub-section: Outflows of Resources Policy Title: Payments to Board Members	<b><u>Effective Date:</u></b> 07/01/1999 <b><u>Revision Date:</u></b> 10/01/2024
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### **Accounting Policy Summary:**

State organizations pay elected or appointed board and commission members (public officers) for a variety of reasons (such as stipends or reimbursements of expenses). The treatment of such payments contains complex legal regulations, including guidelines set forth in the Internal Revenue Code (IRC) as defined by the Internal Revenue Service (IRS). Generally, the treatment of payments is determined from the perspective of whether the individuals are viewed as employees or independent contractors. In most circumstances, public officers in service of the State of Georgia should be considered employees. Additionally, given the complexity and legal requirements, the State Accounting Office (SAO) recommends that each state organization consider their specific circumstances while reviewing appropriate treatment of payments to public officials.

### **Accounting Policy and Requirements:**

According to the IRS, the courts generally define "public official" and "public officer" to mean anyone who exercises significant authority pursuant to public laws. This includes any official who administers or enforces public laws whether the public elected the individual or an office appointed them. IRC 1402, which addresses the applicability of self-employment tax, indicates that performance of the functions of a public office does not constitute a trade or business. Therefore, holders of "public office" are not subject to self-employment tax (an exception applies for certain public officials paid solely on a fee basis).

Instead, public officers are considered employees per IRC 3401(c) and payments to public officials for compensation that is not considered "reimbursable" should be made through the payroll system. Per IRC §62(c), payments are not considered "reimbursable" expenses if:

- The individual is not required to substantiate expenses in order to be paid; or
- The individual is allowed to retain any amount in excess of substantiated expenses.

### **Specific Accounting Procedures:**

The following procedures are specific guidance to be used by organizations in the State of Georgia reporting entity to meet the requirements for statutory and generally accepted accounting principles (GAAP) reporting purposes.

***Accounting Transactions and Journal Entries***

State reporting organizations using the statewide financial system are required to use the general ledger chartfields for each transaction. These chartfields may be different for budgetary reporting and GAAP transactions, such that journal entries may be required to convert between the various bases of accounting required for reporting. For a complete listing and description of the required chartfields, consult the Reporting Structure and Chart of Accounts page on the SAO website ([sao.georgia.gov](http://sao.georgia.gov) > Reporting > Reporting Structure and Chart of Accounts). In accordance with the SAO Accounting Policy – *Chart of Accounts – Structure Overview* policy, those State reporting organizations that do not use the statewide financial system must maintain a crosswalk from their local chart of accounts to the statewide chart of accounts.

As public officers are generally considered employees, payments should be recorded as a payroll expense (account 510003 - Other Supplemental Pay) and subject to income tax, social security and Medicare withholding, with a W-2 form issued at year-end.

Payments made for reimbursable expenditures/expenses are to be recorded in the chartfield account appropriate to the expenditure/expense being reimbursed, and if the reimbursement is travel related the appropriate travel chartfield account is to be used for recording the payments.

**Authority:**

- Official Code of Georgia Annotated (OCGA) 50-5B-3 – Duties of the state accounting officer include:
  - Prescribing state-wide accounting policies, procedures, and practices;
  - Prescribing the manner in which disbursements shall be made by state government organizations;
  - Developing processes and systems to improve accountability and enhance efficiency for disbursement of funds and management of accounts payable;
  - Determining the proper classification for accounting and reporting purposes of all assets, liabilities, revenues, expenditures, fund balances, funds, and accounts in compliance with legal requirements and generally accepted accounting principles and prescribe a uniform classification of accounts and other accounting identifiers which shall be used by all state organizations.
- O.C.G.A. 50-5B-4(b) – Duties of the state agencies with respect to SAO.
  - All organizations of state government and all officers, agents, and employees thereof shall conform to and comply with the rules, regulations, policies, procedures, and forms devised, promulgated, and installed by the state accounting officer.
- Internal Revenue Code §62(c) – Adjusted gross income defined
- Internal Revenue Code §1402(c)(2)(E) – Definitions
- Internal Revenue Code §3401(c) – Definitions
- IRS Publication 15-A (2024), Employer's Supplemental Tax Guide

**Applicability:**

This accounting policy applies to all Organizations included in the State of Georgia reporting entity. It is intended for accounting and tax reporting purposes only and does not address whether board members are “state officials”, “state officers”, or “state employees” in any other legal context. The term ‘organization of state government’ shall mean, without limitation, any agency, authority, department, institution, board, bureau, commission, committee, office, or instrumentality of the State of Georgia. Such term shall not include any entity of local government, including, but not limited to, a county, municipality, consolidated

government, board of education, or local authority, or an instrumentality of any such entity. At these reporting organizations, all personnel with accounting and financial reporting responsibilities should be knowledgeable of this policy. Refer to the SAO Accounting Policy – *Management Responsibilities* policy for a summary of general financial reporting responsibilities.