**Tax Treatment of Scholarships,**

**Fellowships, and Stipends**

**COMMON TERMINOLOGY**

* **Stipend:** A stipend is provided as a subsistence allowance for fellows to help defray living expenses during the research training experience. It is not provided as a condition of employment with either the Federal government or the sponsoring institution.
* **Compensation:** Cash or noncash payments for services rendered. A payment need not be labeled as compensation to be considered compensation. Remuneration for performing research for the Corporation is a form of compensation and not a fellowship.
* **Employee:** any individual, who, under the common law rules applicable in determining the employer-employee relationship, has the status of an employee.
* **Employment**: Any service, of whatever nature, performance by an employee for the person employing him, irrespective of citizenship or residency of such employee.
* **Fellowship:** An amount given to support a student’s research, usually at the graduate level.
* **Grant:** Another term for scholarship/fellowship that implies the student is not required to repay the amount.
* **Prize or Award:** Any form of award or payment to a student who has entered and won a contest or competition. Examples include raffles, contests and competitions for the best design or story, or being the top performer.
* **Scholarship:** To be considered a scholarship, an amount does not need to be formally designated as such. Generally, a scholarship is an amount paid for the benefit of a student, to aid the student in the pursuit of study at an educational institution. A scholarship or fellowship payment may be in the form of a reduction in the amount owed by the payee to an educational organization for tuition, room and board, or other fees (tuition waiver).

**PAYMENT METHODS**

**WAGES (W-2)**

* Wages are payment for services rendered. This includes work provided by degree candidates (undergraduate and graduate students) and non-degree candidates (e.g., post-doctoral students and fellows).
* These payments are processed through the payroll system and Federal, State and FICA taxes will be withheld according to IRS, Social Security Administration and State Department of Taxation regulations.
* All of these individuals are considered employees of the Corporation and as such will receive a W-2 form at year-end reporting their total income and taxes withheld.

**SCHOLARSHIPS, FELLOWSHIPS, AND STIPENDS (1099-MISC OR 1098-T)**

* Scholarships and fellowships are payments to students for which no services are rendered or required. These awards are granted for the purpose of off-setting the cost of tuition, room and board, fees and/or other incidental expenses of attending the Corporation.
* The IRS classifies scholarship/fellowship payments as Miscellaneous Income. No taxes are withheld from these payments, although the Corporation does report the payments to the IRS. If the scholarship/fellowship awards are not used by the student to offset the cost of qualified tuition and certain other expenses specified in the tax law then these monies should be reported as income to the IRS by the student.

**FEDERAL INCOME TAX**

**WAGE PAYMENTS**

* Students’ wages are reported on Form W-2 (Wage and Tax Statement). All wage payments are subject to Federal and State income taxes.
* Students with simple tax reporting requirements may be able to file the IRS Short Form – U.S. Individual Income Tax Return

**SCHOLARSHIP, FELLOWSHIPS, AND STIPENDS**

**Degree Candidates**

* The tax exclusion for scholarships and fellowships is specifically defined in Section 117 of the IRS Tax Code. Scholarships and fellowships are excluded from gross income if they are used for certain tuition, fees, books, supplies, and equipment required for courses of instruction incurred by an individual who is a candidate for a degree.
* If scholarships and fellowships are used for expenses other than tuition, fees, books and supplies, then per IRS regulations, **the portion used for room, board and other incidental expenses is considered taxable income and should be reported to the IRS by the student.** In addition, any portion of amounts received as a grant representing payment for teaching, research or other services required as a condition of receiving the grant should be reported as taxable income.
* It is the responsibility of the student to report scholarship payments as taxable income when the funds are used for non-tuition payment purposes. Failure to file and make quarterly payments may result in tax penalties.

**Non-Degree Candidates**

* Scholarship and fellowship payments to non-degree candidates are taxable income for Federal and State Income taxes.

**EXAMPLES**

* **EXAMPLE 1**

Tammy Graves receives a $6,000 fellowship grant that is not designated for any specific use. Tammy is a degree candidate. She spends $5,500 for tuition and $500 for her personal expenses. Tammy is required to include $500 as income.

A **scholarship** generally is an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be in either a graduate or an undergraduate program.

* **Example 2**

Ursula Harris, a degree candidate, receives a $2,000 scholarship, with $1,000 specifically designated for tuition and $1,000 specifically designated for living expenses. Her tuition is $1,600. She may exclude $1,000 for tuition, but the other $1,000 designated for living expenses is taxable and must be included as income

**Nonresident Aliens**

* Stipends, tuition waivers, or any other financial aid paid to or on behalf of NONRESIDENT ALIENS which require the recipient to perform services past, present, or future, in exchange for the financial aid are taxable as wages, are reportable to IRS on Forms 941 and W-2, and are subject to the withholding rules discussed under **“Wages Paid to Aliens”**.
* In general, scholarships, fellowships, and grants which originate from sources outside the United States are not taxable to NONRESIDENT ALIENS who receive such grants; nor are such grants reportable to the Internal Revenue Service. Scholarships and fellowships paid by a U.S. grantor to a NONRESIDENT ALIEN who performs his study, research, or training outside the United States are considered to be foreign-source grants, and are therefore not reportable to the IRS and are not subject to withholding.

**REFERENCES/RELATED TOPICS**

**Foreign Students and Scholars**

**[www.irs.gov/businesses/small/international/article/0,,id=96431,00.html](http:///www.irs.gov/businesses/small/international/article/0,,id=96431,00.html)**

**SUMMARY OF THE RULES**

* You must be a candidate for a degree for your scholarship to be tax free
* Only amounts for tuition, fees, books supplies, and required equipment are tax free. Amounts for other expenses, such as room, board, and travel, are taxable.
* The part of any grant that represents payment for teaching, research or other services is taxable.

**SUMMARY**

|  |  |  |
| --- | --- | --- |
| Payment For: | Degree Candidate: | Non-Degree Candidate |
| Tuition | Tax Free\* | Taxable |
| Fees | Tax Free\* | Taxable |
| Books | Tax Free\* | Taxable |
| Supplies | Tax Free\* | Taxable |
| Equipment | Tax Free\* | Taxable |
| Room & Board | Taxable | Taxable |
| Travel | Taxable | Taxable |
| Teaching | Taxable | Taxable |
| Research | Taxable | Taxable |
| Other Services | Taxable | Taxable |

**\* If required of all students in the course**

**STUDENT RESPONSIBILITY**

* Students are responsible for completing the correct tax forms and providing them to the Corporation, and notifying the department of changes in their tax status and change of address.

**RESOURCES**

* IRS Tax Codes Section 117, **Withholding Federal Income Tax on Scholarships, Fellowships, and Grants Paid to Aliens**
* IRS Publication 970, **Tax Benefits for Education**
* [**www.irs.gov**](http://www.irs.gov)
* [**www.1040.com**](http://www.1040.com)
* **www.investopedia.com**