

Title: Scholarships, Stipends and Fellowships**Effective Date:** 12/13/2017**Applies to:** University Wide

Statement: WesternU administers payments for pertinent scholarships, fellowships, contracts or grants governing both taxable and tax exempt to individuals that are awarded or perform activities for the University.

Purpose: To ensure adherence and conformity to applicable laws and regulations governing the disbursement of anticipated University payments to individuals for relevant activities.

Related Information:

Generally, scholarship and fellowship grants are cash amounts paid or allowed for the benefit of a student to aid such an individual in the pursuit of study or research. Payment may also be used to reduce the amount owed by the recipient to an educational organization for tuition, room and board or other educational fees.

Qualified Payments (Excludable from Income):

Payments to an individual in the form of a scholarship, stipend or fellowship are excludable from income if the primary purpose of the studies or research is to further the education and training of the recipient in their individual capacity and the payments do not represent compensation for services. There must be no obligation except that the student remains enrolled in a degree plan and maintains the qualifying requirements.

Non-Qualified Payments (Includable in Income):

Any amounts received for incidental expenses or by a non-degree candidate are taxable. Incidental expenses include room and board, travel, and expenses for equipment and other items that are not required for either enrollment or in the course of instruction. Pursuant to IRS Notice 87-31, the payer of a taxable scholarship/fellowship is not required to withhold income tax and is not required to report the payment either to the student or the IRS. This rule only applies for payments not considered as compensation.

Compensation for Services (Includable in Income):

Any amount that represents compensation for services should not be considered a scholarship or fellowship grant if any of these apply:

1. The amount represents compensation for past, present, or future employment services.
2. The activity is subject to the direction or supervision of the grantor.

3. The payment enables the recipient to pursue studies or research primarily for the benefit of the grantor.

Compensated services are considered wages for employment tax purposes and are subject to employment tax withholding and reporting requirements. Whether a payment is of the nature of a scholarship or compensation depends on the primary purpose of the payment. Was the individual paid to work or paid to study?

Some factors to consider in regard to research activities that the IRS considers taxable would include the following:

- Faculty supervision of the student's work, including planned time schedules and required progress reports.
- The student's ability to direct the course and direction of the research activities.
- Whether the student is able to retain any patents or copyrights resulting from their efforts.
- Any research services directly related to the fulfillment of a contractual commitment by the university.
- Whether the student is required to work a specified number of hours a week on the research project.
- Amount of the payment.
- Treatment of the student as an employee providing faculty privileges or other employee benefits.

A recipient of a scholarship must include in gross income any amount which represents payment for teaching, research, or other services by the student required as a condition for receiving the scholarship.

If payment only partially represents payment for services the dean or budget director must determine the amount of the scholarship, stipend or fellowship allocated to payment for services.

Any post-doctorate students, physicians or researchers are generally not in a degreed program and as such do not qualify as non-taxable. Any payments will be includable in their W-2.

Recipients who are U.S. citizens or U.S. residents for tax purposes will be responsible for reporting any taxable amount of the stipend to the Internal Revenue Service (IRS). IRS regulations require that nonresident aliens who receive these types of payments will have federal income tax withheld on any taxable portion (travel, research and living expenses) of the stipend. An IRS Form 1042-S will be sent to all nonresident alien stipend recipients by March 15 of each tax-filing year. See **Foreign National Classification** section below.

The Internal Revenue Service (IRS) requires that all foreign national students receiving any payments from a U.S. source, including stipend payments, must have a valid social

security number (SSN) or individual taxpayer identification number (ITIN). If the Social Security Administration (SSA) determines that the student is not eligible for a SSN, the student must apply for an ITIN from the IRS. Student should check with the local SSA office to determine if they are eligible for the SSN.

Foreign National Classification:

The United States has income tax treaties with 65 countries, all designed to eliminate double taxation of income the foreign nationals earn. Each treaty is unique. There are three forms to claim tax treaty benefits: Form 8233, generally for wages; Form W-8BEN for scholarships; and Form W-9, benefits geared towards resident aliens. You can find these forms at www.irs.gov. A foreign national is anyone who is not a citizen or a legal permanent resident of the United States. Foreign nationals may be classified as either nonresident alien or resident alien as determined by tests established by the IRS.

Subject to applicable regulations and guidelines set forth by the IRS and laws or regulations governing payments.

Responsible Department: University Financial Services & Treasury

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