

Payments to Students and their Taxability

Background

Western University of Health Sciences (University) makes various payments to students for various reasons. In awarding and processing such payments, care must be taken to classify these payments correctly for tax purposes. These guidelines address types of payments made to students, including scholarships, fellowships, stipends, prizes and awards, compensation for services, refunds and reimbursements. Additionally, this document defines which type of payment is taxable income to the student and which payments the University must report to the Internal Revenue Service (IRS).

Reporting and taxation of student payments are governed by the Internal Revenue Code and Treasury Regulations and enforced by the Internal Revenue Service (IRS).

<http://www.irs.gov/publications/p970/ch01.html>

For example, scholarships/fellowships are not taxable to the extent they do not exceed the cost of tuition, fees, and course-required expenses (*books, supplies, equipment*) and the student is a candidate for a degree. These non-taxable amounts are called qualified education expenses. Amounts in excess of **qualified education expenses** are taxable to the student, such as room/board, travel, research, living allowance, etc., and are called **non-qualified education expenses**.

The purpose of this document is to explain how to categorize payments made to students in support of their education related activities. For example, a stipend can have various meanings, but is typically paid as a living allowance and includes payments other than those defined as non-taxable fellowships.

Summary Overview: Payments to Students

Types of Payments to Students and Taxation Implications

There are many different types of payments to students who attend the University and each has its own taxation implications. In summation, the payments fall into two categories:

Non-taxable: (Excludable from Income)

- Scholarships/fellowships that are used for qualified tuition and related expenses
- Student reimbursements* for students purchasing a service or good while acting as an “agent” of the University or club
- Student refunds for student account overpayments and/or excess Title IV funds

Taxable: (Includable in Income)

- Prizes and awards
- Funding provided via a stipend payment for a student to attend a conference or conduct research, unless such expenses are for University purposes*
- Funding provided via a stipend payment for room, board or personal expenses*

- Compensation for services related to work

*Student Travel payments and Reimbursements payments are not reportable to the IRS as income to the student if the student can document that the payment:

- a. directly supports a faculty member's project or research program, or
- b. is related to presenting at a conference, or
- c. is an integral part of the student's educational study, or
- d. is official University Business

Any payment which has not meet one of the criteria above will be taxable income to the recipient, and may be reported to IRS on forms W-2 or 1099-MISC**. It is the student's responsibility to maintain records for these payments.

**For payments given to nonresident alien students, there is tax withholding and reporting on Form 1042-S to the IRS.

Definitions

Scholarship/Fellowship

ii. Trainee Fellowship

There are two types of Trainee categories and a distinction between the two is very important.

- a. Research Assistants, Teaching Assistants, and Post-Doctoral Associates: employees who perform a service for the university and for such services is compensated as any other employee. These types of individuals are performing services in order to receive compensation and are subject to the control of and are supervised by an employee of the University making the payment taxable and reportable to the IRS.
- b. Trainee Fellowships, Post-Doctoral Fellowships, and Research Fellowship: an individual who is performing independent research. If the fellow is a student this research would be part of their educational pursuits. It is important to note that the student is performing independently and not under any direct supervision or direction. They may seek advice or assistance from colleagues, or may collaborate with others in their particular discipline; but the final decisions of what to do, how to proceed, and in what direction the research goes is decided by the fellow.

Example 1: The amount of tuition is waived for OMM students which is non-taxable. However, payments in excess of tuition, i.e. 5th year students receiving cash payments would be taxable and is reported on the IRS form 1099-MISC.

Example 2: Summer Research Stipends are taxable and reported to the IRS since the program is conducted while students are not attending classes and are providing a service for the University under the direction of an instructor.

Compensation for Services Related to Work

This category is defined as payments made for teaching, research and/or other activities performed for the benefit of the University, including activities for the University that may be associated with the student's course of study and educational experience. Payments received in connection with the performance of service by a student are taxable income and

Prizes and awards are always taxable and must also be reported to the Financial Aid office. The University will report the prize or award to the IRS and the student on IRS Form 1099-MISC, Miscellaneous Income (Form 1099 reporting is only required if total awards are \$600 or more in the year): <http://www.irs.gov/instructions/i1099misc/ar02.html> or on IRS Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding: <http://www.irs.gov/pub/irs-pdf/f1042s.pdf>.

Exception: If restrictions are placed on the prize or award, it is considered a scholarship; it should be awarded and processed through the University's Financial Aid department.

U.S. Citizens

Submit these payments to University Accounts Payable via University Accounts Payable system. Include a complete description of the prize/award, the term of payment, and a statement indicating there are no restrictions on the use of the funds. Use Natural Accounts listed below for these payments.

If restrictions are placed on the prize or award, and it is therefore considered a scholarship, it should be awarded and processed through the University's financial aid system.

How to Process

Domestic Students

Stipends awarded to students must be processed through University's Financial Aid office with

These payments are disbursed through the student's University account and maybe considered a resource when determining a student's financial aid eligi-2ng a st

Student Workers

Supporting Student Staff: Federal Work-Study Student

There are two types of on-campus supporting staff workers: federal work-study students and student casual workers. Federal work-study positions are only available to U.S. citizens and eligible non-citizens. The Federal Work-Study Program is designed to promote part-time employment for students who are in need of earnings to help finance their education.

Student employees are considered at-will employees, and their employment is interim or temporary and incidental to the pursuit of a degree or certification.

Supporting Student Staff: Student Casual Workers

Employees who are registered University students who have a “student” status excepting those whose employment is totally independent of, and, unrelated to their student role, FICA (Social Security and Medicare) taxes do not apply to services performed by students employed by a schools, colleges, or university’s where the student is pursuing a course of study. Whether employees are students for this purpose requires examining the individual’s employment relationship with the University to determine if employment or education is predominant in the relationship. If the employee is enrolled and regularly attending classes (the exemption is not applicable to employees who are taking classes at another institution) in pursuit of graduating as their primary purpose, FICA taxes will not apply to compensation.

The University will make student FICA determinations based on [Revenue Procedure 2005-11](#) safe harbor guidelines that is; those students who meet these guidelines will be treated as exempt from FICA taxes, while those student employees who do not meet these guidelines will be subject to FICA taxes on their wages. Additionally, payments to clinical and other fellows, medical residents and postdoctoral research associates are not eligible for the student FICA exemption.

How to Process

U.S. Citizens and International Students

Payments for services are processed through the University’s Human Resources Department and Payroll Office

Assistants

Individuals with teaching fellowships or who are research assistants are not classified as employees. Factors used to make this determination are:

- the type of services may be required to be performed in conjunction with a grant;
- the primary purpose of the fellowship is to assist students in developing as scholars and researchers or to teach/perform research primarily for the benefit of the grantor; and
- fellowship recipients do not perform the same work, for the equivalent compensation, as do employees of the institution.

Other Payments to Students (Not Taxable)

I. Refunds

The University's policy is to resolve eligible credit balances in student accounts as promptly as possible in compliance with all applicable regulations by issuing refunds to the student.

At the University the student account is used for the purpose of assessing charges and applying payments against those charges. If a student's account balance is a credit, it is the policy of the University to refund the credit to the student in a timely manner under most circumstances.

II. Student Reimbursements

Students who incur costs for approved activities that primarily benefit the University may be entitled to reimbursement. Student reimbursements for approved expenditures incurred are not considered reportable as taxable income to the IRS.

An example is a student who travels to an approved conference to represent the University as requested by the University. Such expenses are fully reimbursed by the University. All University policies and procedures apply to these reimbursements, including the requirement that reimbursement requests be