1 Introduction

1.1 This policy clarifies the types of payments that may be made to both undergraduate and graduate students. Such payments include scholarships, fellowships, prizes and awards, student refunds, compensation for services, and reimbursements. Processing payments made to students requires an additional level of review so that the University can remain compliant with all related Federal and State laws in addition to University policies.

2 Scope

2.1 This policy applies to all University students.

3 Definitions

3.1 Qualified Scholarship/ Fellowship

account credits or payments to students in a degree program that cover qualified tuition and related educational expenses (limited to tuition and required fees including books, supplies or equipment) and do not exceed stated tuition and fees amounts. Qualified scholarships and fellowships are not taxable income to the student, however they are reported on IRS form 1098-T.

3.2 Non-Qualified Scholarship/ Fellowship

account credits or payments to students for expenses that are not qualified tuition and fees. (For example amounts used to pay for optional fees, room, board, travel, and personal expenses) All non-qualified scholarship or fellowship payments are potentially subject to income tax withholding and reporting on IRS form 1098-T or IRS form 1042-S for nonresident foreign nationals.

3.3 Prizes and Awards

payments received as a result of entering a drawing, participation in an event, are received as the result of entering a contest, or payments in recognition of charitable, scientific, educational, artistic, literary, civic achievement. Prizes and awards are always taxable and may be monetary in nature or in the form of a tangible item. If IRS thresholds are met the University will report the prize or award to the IRS and the student on IRS form 1099-MISC. Prizes and awards received by nonresident foreign nationals may be subject to reporting on IRS form 1042-S and may be subject to tax withholdings.

3.4 Trainee Fellowship

payments in this category assist an individual in the pursuit of study or research. No past, present, or future services are expected to be provided by the individual in return for the support. The funds received may be considered taxable income to the recipient but are not reported as taxable income by the University on IRS forms W2 or 1099-MISC. However, the payment may be subject to reporting on IRS form 1098-T or 1042-S for nonresident foreign nationals. Payments to nonresident foreign nationals may also be subject to tax withholding. Trainee fellowships may be taxable to the individual to the extent there are no offsetting
qualified educational expenses.

3.5 Student Refund

refers to processing payments to students resulting from a credit balance on the student’s account. This term is also applied to payments to students for Title IV proceeds (SEOG, Pell Grants, Federal Direct loans, and Perkins loans) in excess of the amount of tuition and fees, room and board, and other allowable charges.

3.6 Compensation for Services

payments in this category are made to students for teaching, research, or other activities performed for the University. The primary deciding factor for properly classifying these payments is that the services provided are for the benefit University and may or may not be related to the student’s course of study. Payments for services are always taxable income and may be subject to federal, state and FICA withholding or may be reported on form 1099-MISC as income earned for independent personal services depending on the nature of the relationship between the student and the University.

3.7 Student Employee

a part-time University employee who is enrolled as a student, currently registered in classes and whose primary purpose for being at the University is to earn a degree or certification. (IRS Rev Notice 2004-12)

3.8 Reimbursements

when a student incurs a cost for an approved activity that primarily benefits the University they may be able to receive a reimbursement of the expense. Student reimbursements for expenses incurred on behalf of the University may be excluded from taxable income provided the proper policies are followed.

3.9 Nonresident Foreign Nationals and Resident Aliens

Students who are not a U.S. citizens are considered nonresident foreign nationals unless they meet either the ?green card test? or substantial presence test? for the calendar year (Jan 1 ? Dec 31) as defined by the Internal Revenue Service. If a student meets the ?green card test? (meaning they were a lawful permanent resident of the United States according to the immigration laws, and this status has not been revoked or administratively or judicially determined to have been abandoned) or meets the ?substantial presence test? they are considered to be a resident alien and are taxed in the same manner as a U.S. citizen.

4 Policy and Procedure Statements

4.1 Scholarships and Fellowship Grants

4.1.1 Nontaxable Scholarships and Fellowship Grants, Degree Candidates- a payment to a student is considered a scholarship or fellowship if the primary purpose of the course of study or research is to further the education and training of the recipient and payments do not represent compensation for services. There cannot be any obligation to provide services in exchange for the grant other than that the student remain enrolled in a degree program and maintain qualifying requirements of the award. A ?qualified scholarship? is the amount of a scholarship or
fellowship grant that is used for tuition, fees, books, supplies, and equipment required for courses. These items must be required of all students in a course of instruction for the applicable portion of the scholarship or fellowship grant to be considered tax free.

4.1.2 All qualified scholarships and fellowship grants will be reported by the University to the IRS and to the student on IRS form 1098-T.

4.1.3 All qualified scholarships and fellowship grants will be awarded and processed through the University’s Office of Student Financial Aid.

4.1.4 Taxable Scholarships and Fellowship Grants, Degree Candidates- Scholarships and fellowships received to offset non-qualified educational expenses are taxable to the student. For students who are nonresident foreign nationals there is no withholding or reporting on form 1099-MISC, however amounts may be reported on form 1098-T.

4.1.4.1 Taxable scholarship and fellowship payments may include, but are not limited to, payments for room (housing), board (meals), medical expenses, thesis support, travel, non-required fees, books, supplies, or equipment, and other personal expenses. Additionally, funding provided for a student to attend a conference, engage in a job search or interview or to conduct research is considered a taxable scholarship or fellowship grant (unless such expenses primarily benefit the University).

4.1.5 The University’s Office of Student Financial Aid must be consulted before any non-qualified scholarship or fellowship award is offered or made to a student. Departments that have established continuous award programs with the support of Financial Aid will not need to consult with Financial Aid for each disbursement to a student provided no significant changes to the program have been made.

4.1.6 Taxable scholarship and fellowship payments to students who are nonresident foreign nationals for tax purposes may be subject to reporting and withholding. Before such taxable scholarships or fellowship payments are made to students, Departments must contact the University’s Controller’s Office.

4.1.7 Any scholarships or fellowship grants received by non-degree candidates are considered taxable even if the amount given covers qualified educational expenses. The University is not required to withhold income tax nor is it required to report the payment to either the student or IRS unless the payment is made to a nonresident foreign nationals. In the case of nonresident foreign nationals the payment may be subject to withholding and reporting on form 1042-S.

4.2 Student Reimbursements and Refunds

4.2.1 Student reimbursements for expenses incurred while acting as an ?agent? for or on behalf of the University are not included in income and are not subject to reporting provided the reimbursement meet the requirements of all University and State policies.

4.2.1.1 Examples:

1. Student travels to an approved conference to represent Appalachian as requested by the University.
2. Student is approved to travel to represent Appalachian in a scholastic competition.
3. Student is approved to travel to a conference to present a paper on behalf of a department.
4. Student travels to perform research, which happens to be related to their course of study, and the University
would perform research on the topic regardless of the student performing research for their course of study. The University is the primary beneficiary of the research and travel.

4.2.2 Students’ accounts are used to assess institutional charges and to apply payments against those charges. Disbursement of credit balances on a student’s account are generally not considered taxable income. When a credit is placed on an account it may be taxable to the student and may create a credit account balance that is later refunded. Any withholding or reporting requirements will be based on the award not the disbursement of the balance through the refund process. For example, the total award of a scholarship or fellowship less any required tuition and fees is considered taxable income to the student, but not reportable by the University regardless of whether or not a refund was generated.

4.2.3 Student refunds for excess Title IV (Financial Aid) funds are not taxable income. Title IV funds cannot be used to pay past balances on a student’s account.

4.3 Prizes and Awards

4.3.1 For U.S. Citizens and nonresident foreign nationals the total of all prizes, awards, and other income reportable on form 1099-MISC made to students during the year that exceed $600.00 must be reported by the University to the student and the IRS. It is the responsibility of the student to report the amount of all prizes and awards on their personal tax returns regardless of amount.

4.3.2 Prize and award payments made to students who are nonresident foreign nationals are subject to 30% withholding and reporting to the IRS and student on form 1042-S.

4.3.3 If the prize or award is only available to students the payment is considered a scholarship and must be included on the student’s Financial Aid award record and may affect the student’s Financial Aid package. Students should consult with their Financial Aid counselor to determine the effect of accepting the prize or award.

4.4 Compensation For Services

4.4.1 An amount paid to a student is considered compensation for services and not a scholarship or fellowship if:

1. the amount represents compensation for past, present, or future employment services
2. the payment is for an activity that is directed by or supervised by the University, or
3. the purpose of the payment is to enable the student to pursue studies or research that benefits the University.

These types of payments are considered wages for employment for tax purposes. All employment relationships established with students are to be managed through the appropriate office. (Student Employment, Graduate School, Human Resource Services)

4.4.3 Student employees may or may not be subject to FICA payroll tax withholding.

4.4.4 Depending on the facts and circumstances related to the services provided and the relationship between the individual and the University, payments for independent personal services may be reported on form 1099-MISC.
5 Additional References

- IRS Publication 970 Tax Benefits for Education
- IRS Topic 421 Scholarships, Fellowship Grants and Other Grants
- IRS Publication 15 Employer’s Tax Guide
- IRS Publication 15-A Employer’s Supplemental Tax Guide
- IRS Publication 515 Withholding of Tax on Nonresident Aliens

6 Authority

- IRS § 61 Gross Income Defined
- IRS § 117 Qualified Scholarships
- IRS § 74 Prizes and Awards
- IRS § 871 Tax on nonresident alien individuals
- IRS § 1441 Withholding tax of nonresident aliens

7 Contact Information

8 Original Effective Date

- May 12, 2016

9 Revision Dates