Tax Compliance
Scholarships & Fellowships

• IRS Definitions:
  • “A scholarship is generally an amount paid or allowed to, or for the benefit of, a student (whether an undergraduate or a graduate) at an educational institution to aid in the pursuit of his or her studies.”
  • “A fellowship grant is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.”

**No Services associated as a consideration**
Scholarships & Fellowships

- Federal Tax Implications
  - U.S. Citizens, Permanent Residents, and Resident Aliens
    - “Qualified” portion not taxable or reportable
    - No tax withholdings
    - Reported on form 1098-T
    - Must be reported to Student Financial Aid
Scholarships & Fellowships

• Federal Tax Implications - continued
  • Non-Resident Aliens
    • “Qualified” portion not taxable or reportable
    • Tax withholding may apply to “non-qualified” amounts
    • Reported on form 1042-S
    • Must be reported to Student Financial Aid
Prizes & Awards

- **Definition:**
  - An amount received in recognition of charitable, scientific, educational, artistic, literary, or civic achievement, or is received as the result of entering a contest
  - **Categorized as “Other Income” by the IRS**
  - **Must be reported to Student Financial Aid**
Federal Tax Implications

- U.S. Citizens, Permanent Residents, and Resident Aliens
  - Reporting on form 1099 is required if payment is greater than $600
- Non-Resident Aliens
  - 30% withholding tax
  - Reported on form 1042-S (no de Minimis)
- All prizes/award payments to employees will be reported and taxed on a W-2
Scholarships/Fellowships vs. Prizes/Awards

• Some prizes/awards could have the characteristics of scholarships/fellowships
• Withholding agent must determine which income category best describes the grantor’s intent
Scholarships/Fellowships vs. Prizes/Awards

- Prizes/Awards in the nature of a Scholarship/Fellowship
  - Grantor specifically intends for prize/award to be used to defray the expenses of study, training, or research
Scholarships/Fellowships vs. Prizes/Awards

- Prizes/Awards not in the nature of a Scholarship/Fellowship (considered other income)
  - An award or recognition for an achievement, skill, or an award won in a contest
  - Grantor does not specify that money be spent to defray the expenses or study, training, or research, and can be spent how the recipient wishes