

## **Guidelines for Payments to SU Students**

The terms stipend, scholarship, fellowship, payment are defined differently for different institutions. These terms are also often used interchangeably and can actually be disbursed to student through different payment methods at different organizations. It is important to determine and analyze the requirements and payment details of each situation, in order to determine what type of payment it actually is as well as the taxability and reporting requirements related to the payment. To eliminate confusion and ensure compliance, Southwestern University defines payments to students, as detailed below, into the following 6 categories: Scholarships/Grants, Wages/Compensation, Fellowships, Internship Support, Travel Reimbursements/Funds, and Student Awards.

Please note that the taxability and reporting issues for International Students (“Nonresident aliens”) may be different than what is provided in the sections below. International students must refer to the last section for specific regulations related to payments to nonresident aliens.

### **1. Scholarships/Grants (Scholarships)**

#### **a. Definition –**

Scholarships are amounts awarded to a candidate for a degree at an educational institution and they do not have any requirement that a recipient perform any services as a condition of receiving the payment.

**Examples at SU:** Brown Scholar, SU Grant, all financial aid.

#### **b. Process –**

Generally scholarships and grants are awarded through the financial aid office and applied to the student’s SU account.

#### **c. Taxability -**

##### **• Non-Taxable Scholarship (“Qualified Scholarship”)**

Scholarships received by a candidate for a degree at an educational institution and used to pay for tuition and mandatory fees required for enrollment, or books, supplies and equipment required of all students in the course are considered **qualified scholarships**. Qualified scholarships are *not* taxable income to the student.

- **Taxable Scholarship (“Non-qualified Scholarship”)**

Scholarships used to pay for incidental expenses such as room and board, non-required books, travel, personal computers, etc. are taxable scholarships, also referred to as **non-qualified scholarships**. These payments *are* taxable income to the student; however, the University is not required to withhold income tax or FICA tax on the payment. Students are responsible for reporting their taxable scholarships and remitting any tax due with their personal income tax return.

- d. **Reporting –**

- In January, a Form 1098-T is provided to the student and the IRS that reports all scholarships and grants paid to the student and total payments received by the University for the prior calendar year.

## 2. **Wages/Compensation**

- a. **Definition –**

- Payments involving services performed by students at the University are considered wages/compensation. Student workers can provide services that include research and other activities, including activities for the University that may be associated with the student’s course of study and educational experience. Students are paid on an hourly basis for their services performed.

- Examples at SU:**

- All student employment positions on campus.

- b. **Process –**

- Supervisors are responsible for submitting the new hire form for each student position listing all students workers and related information.
  - Supervisors must obtain approval from HR to pay a student position an hourly rate of \$10 or more per hour based on providing a detailed job description of the student position.
  - Prior to starting work, all students are required to complete and turn in to the Business office the following required new employee paperwork: W-4 form, I-9 form, and Direct Deposit form. (Original copies of social security cards are required.)
  - Student employees are required to submit their actual time worked for each day for the two week pay period on-line through their WebAdvisor account by the required deadline for approval by their supervisor.

- Supervisors are required to approve the hours worked by each student on-line through their WebAdvisor account by the required deadline for each bi-weekly payroll period.
- Students are paid on a biweekly basis by electronic deposit into their bank account.
- Students are expected to work an average of 17 hours per week during the academic year.
- Students cannot exceed 884 hours during a calendar year.
- Generally students are limited to only 1 on-campus job at a time. Special approval must be received by the HR department for a student to have more than one active job at a time (except for having multiple jobs in the same department – Athletics, SIRA, IS.) In the rare case where a student has more than 1 job, **it is the responsibility of the student and the supervisor to work together to ensure the maximum hours are not exceeded.**

**c. Taxability –**

The payments received by students for the performance of past, present or future service are taxable income, subject to federal and FICA tax withholding by the University. Federal income taxes are withheld throughout the year based on the Form W-4, *Employee's Withholding Allowance Certificate* completed by the student. The tax law provides for an exception from FICA for students employed by the University who are also enrolled and regularly attending classes at the University (also referred to as the "student FICA" exemption).

**d. Reporting –**

The total of all wage and salary payments (from all SU departments, positions and semesters within the calendar year) made to U.S. citizens and resident alien students are reported, along with any related income and employment taxes withheld, on Form W-2, *Wage and Tax Statement*. Form W-2 is provided to the student and the IRS in January for the prior calendar year. The student is required to report this income on their annual personal income tax return.

**3. Fellowships**

**a. Definition –**

A fellowship is any amount paid to, or for the benefit of, an individual performing research under faculty supervision and in course of obtaining a degree. The primary purpose of the studies or research is to further the education and training of the recipient

in his/her individual capacity and the amount provided does not require any performance of services in return for payment - no strings attached and no quid pro quo.

**Examples at SU:**

- NSF SURF Fellowship
- SU's summer undergraduate research - Faculty Student Projects, SCOPE, and Mini Scope
- A research fellowship during the academic year would be a rare exception due to the necessary full-time focus by the student and other relevant requirements. (Any exceptions will be determined by a thorough review of the details by Elma Benavides, Brenda Thompson, & Julie Cowley.)

**b. Process –**

- Supervising faculty members should complete the new Student Fellowship Form listing each student, dates for research, account number, and fellowship payment amounts and dates.
- Before starting research, the students must complete the following items:
  - 1) If not a prior student worker, the new student worker paperwork which includes W-4, I-9, and direct deposit.
  - 2) The “Student Fellowships – Taxable Payable Acknowledgement” which is an electronic google form to acknowledge that they understand that the payments may be taxable and that they are responsible for paying any required taxes. A link to the form will be provided with the award information.
- Monthly payments are made to the student through the payroll process following the payment schedule provided.
- If students are enrolled in SU's summer research class during their summer undergraduate research, no fica or medicare will be deducted from the payments in accordance with the FICA exemption in Regulation 31.3121(b)(10)-2. Federal withholding will be deducted as required.
- If it is not a requirement of the program for the student to live in on-campus housing while conducting the summer research, the value of the on-campus housing will also be added to the student's wages through the payroll process.

**c. Taxability –**

Fellowship payments are considered taxable income to the student. The recipient of the fellowship is responsible for

reporting their taxable fellowship and remitting any tax due with their personal income tax return.

**d. Reporting –**

The total of all wage and salary payments (from all SU departments, positions and semesters within the calendar year) made to U.S. citizens and resident alien students are reported, along with any related income and employment taxes withheld, on Form W-2, *Wage and Tax Statement*. Form W-2 is provided to the student and the IRS in January for the prior calendar year. The student is required to report this income on their annual personal income tax return.

**4. Internship Support**

**a. Definition –**

Internship support is distinct from wages and salaries because it is not intended to compensate a student for work performed. Rather, it is intended to free up a student to undertake a role in connection with education studies or research that would normally be uncompensated, without having to assume other compensated employment to pay his/her bills. Internship support cannot be paid to a student unless (1) the student's activities related to the support are substantially unsupervised by the University and (2) the hours in which the student performs the services are not easily tracked. Internship support is not considered compensation and cannot be paid for services rendered to the University. Students may receive internship support and still not be considered an employee as long as the support does not exceed a reasonable estimate of the students' expenses and the intern is the main beneficiary. Whether the student is or is not receiving academic credit for the internship does not affect funding.

**Examples at SU:**

- Kemper Summer Scholars,
- Georgetown Project Students,
- Outside organizational internships approved by Career Services and awarded by the HIE committee.

**b. Process –**

Southwestern University awards internship support to students with unpaid internships and supplemental pay for paid internships up to \$15 per hour. Applications must be completed and submitted by the required deadlines. Maximum award amounts are determined at beginning of the year by the HIE Award Committee. Amounts may also vary based on the location of the

internship. Awards will be made by the HIE Award Committee using the applications received and based on available funds until exhausted. Internship support is not guaranteed.

- Maximum awards amounts are \$1,500 for the Fall and Spring terms individually and \$5,000 for the Summer term.
- Award amounts may vary based the location of the internship.
- Internship support will be paid based on the completed “Student Internship Payment Form” completed by the HIE award committee through accounts payable.
- Internship support are paid in 3 payments and authorized after meeting certain deliverables.
- Before receiving any funds, the students are required to complete the following 3 items:
  1. W-9 form
  2. “Student Internship Support - Taxable Payment Acknowledgement” which is an electronically submitted google form to acknowledge that they understand that some of all of the payment/reimbursement may be taxable and included on their tax return. A link to the form will be provided with the award information.
  3. Direct Deposit Non-Payroll Disbursement Form with direct deposit information.

**c. Taxability –**

Internship support may be subject to federal taxation. If the student is getting credit for the internship and the funds are used for payment for qualified tuition and fees then the support is nontaxable. If the student is not getting credit for the internship, then the support is taxable income.

**d. Reporting –**

Although the University is not required to report internship support payments to students at the end of the calendar year, Southwestern University has chosen to report cumulative internship support over \$600 to the student for informational purposes. These payments are reported in January, for the prior calendar year, in Box 3 of Form 1099-Misc. Students are responsible for determining the taxability of these payments and reporting any taxable internship support on their personal tax return and remitting any resulting tax due if it exists.

## **5. Travel/Reimbursement Funds**

a. **Definition** –

Travel funds are provided to students to financially help them obtain a high impact experience by attending conferences, special training seminars/workshops/lessons, competitions, leadership conference etc. that directly benefit them in their field of study.

Examples at SU:

- Fine Arts Travel Funds
- Undergraduate Travel Assistance
- Funds for other approved HIE activities

b. **Process** –

- There are several different funding sources that award travel funds and reimbursement to students, such as the Undergraduate Travel Assistance Fund, Fine Art Student Travel, and High Impact Experiences.
- Each source has its own application process, but there is a coordinated award process between funds.
- Payments are made either as a reimbursement to the student or as a direct payment made by the department on the student's behalf.
- If the payment is made to the student, the approving department completes a check requisition form payable to the student that includes the proper authorization and attached receipts.
- Before receiving the fund, students are required to electronically complete the "Student Travel Funds - Potential Taxable Payment Acknowledgement" to acknowledge that they understand that some of all of the payment/reimbursement may be taxable and included on their tax return before receiving the funds. A link to the form will be provided with the award information.

c. **Taxability** –

The recipient of the travel funds or other reimbursement is responsible for determining whether such award is, in whole or in part, includible in gross income for federal income tax purposes.

d. **Reporting** –

The University is not required to report student travel funds or reimbursements at the end of the calendar year. Since students are responsible for reporting their taxable awards and remitting any tax due with their personal income tax return, students should track these payments throughout the year to ensure proper reporting on their tax returns.

## 6. Student Awards

a. **Definition** –

A student award is an unsolicited prize given to a student by a department/program to recognize them for a special achievement or honor.

**b. Process –**

- Student awards are initiated by the department that is giving the award following the Dean of Faculty's procedures and using the "Student Award/Gift Form."
- These awards must be tangible property that does not exceed more than \$75.00 per award.
- No awards can be in the form of cash or cash equivalents, such as gift cards or pirate bucs.
- Special student awards funded through an account dedicated for a specific achievement should follow the MOU guidelines/restrictions set for that particular fund. These payments are processed and paid through accounts payable after approval by the Dean of Faculty.
- Before receiving the award, all students are required to complete a W-9 form and to electronically complete the "Student Awards - Potential Taxable Payment Acknowledgement" google form to acknowledge that they understand that some of all of the student award may be taxable and included on their tax return before receiving the funds. A link to the form will be provided with the award information.

**c. Taxability –**

The recipient of the student award is responsible for determining whether such award is, in whole or in part, includible in gross income for federal income tax purposes.

**d. Reporting –**

The University is not required to be reported student awards at the end of the calendar year. Since students are responsible for reporting their taxable awards and remitting any tax due with their personal income tax return, students should track these payments throughout the year to ensure proper reporting on their tax returns.

Although not required, Southwestern University has chosen to report cumulative student awards over \$600 to the student for informational purposes. These payments are reported in January, for the prior calendar year, in Box 3 of Form 1099-Misc. Students are responsible for determining the taxability of these payments and reporting any taxable internship support on their personal tax return and remitting any resulting tax due if it exists.



## **Payments to International Students (“Nonresident aliens”)**

Payments used for expenses other than those described in section B.1. are taxable scholarships, also referred to as **non-qualified scholarships**. Examples of non-qualified scholarships include payments used for incidental expenses such as room and board, non-required books, travel, personal computers, etc.

Non-qualified scholarships paid to non-resident aliens with "F-1", "J-1", "M-1", or "Q-1" visas are subject to U. S. income tax withholding of 14% unless tax treaty relief is available. For all other visas the withholding rate is 30%. Non-qualified scholarships are not subject to FICA withholding.

Students from countries that have a tax treaty with the U.S. that includes a scholarship article may claim exemption or a reduction of the 14% withholding if the payment meets the requirements of the treaty. The student must come to the Business Office and complete the required forms with Sally Volling, Tax Accountant.

The amount of taxable scholarship received and the amount of federal tax withheld, if any, is reported on Form 1042-S to the student and to the IRS. Students are responsible for reporting their taxable scholarships and remitting any tax due with their personal income tax return (i.e. Forms 1040NR or 1040NR-EZ and the corresponding state forms).

### **1. Wages/Compensation**

Payments received for the past, present or future performance of services by a non-resident alien student is taxable income, subject to federal and state income tax withholding by the University. Federal and state income taxes are withheld throughout the year based on the Form W-4, *Employee's Withholding Allowance Certificate* completed by the student. Non-resident alien students on F-1, J-1, M-1 or Q-1 status, who comply with the terms of their status, are exempt from FICA for certain periods. Once a nonresident student becomes resident alien, the general "student FICA" exception will apply. (See section A.3.)

Non-resident alien students who earned wages that are not exempt from income tax withholding under a tax treaty will receive a Form W-2, *Wage and Tax Statement* from SU. Form W-2 is also provided to the IRS.

Students from countries that have a tax treaty with the U.S. that includes a wage article may claim exemption or a reduction of income tax withholding if the payment meets the requirements of the treaty. The student must come

to the Business Office and complete the required forms with Sally Vollying, Tax Accountant.

Non-resident aliens who had a portion of their wages exempted from withholding under a U.S. income tax treaty will receive Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, for that portion of their earnings. The income reported on the Form 1042-S will not be duplicated on Form W-2. Form 1042-S is also provided to the IRS.

Non-resident alien students are responsible for reporting their exempt and taxable wages and remitting any tax due with their personal income tax return.