

SCHOLARSHIPS AND FELLOWSHIPS

July 2008
Policy 6.1.07

Policy:

KUMC Research Institute adheres to IRS reporting guidelines regarding stipends, scholarships and fellowships for graduate students, postdoctoral fellows, and clinical fellows enrolled at KU Medical Center paid with funds managed by the KUMC Research Institute.

Purpose:

The purpose of this policy is to clarify the difference between a scholarship or fellowship and a stipend for tax reporting purposes per Office of Management and Budget A-21, Internal Revenue Code Title 26 Section 117(b), and Internal Revenue Service (IRS) Publication 970.

“Scholarship” or “fellowship” is not an interchangeable term with “stipend”. A stipend is taxable income. Technically, all income received is taxable. However, IRS Title 26 Section 117 offers potential exclusions from income for certain items (tuition, required fees, books and course-required supplies) when classified as scholarships or fellowships. However, this potential exclusion from income is *not* available for stipends. Recipients of a scholarship or fellowship may be required, as a condition of receiving the award, to perform certain activities or attend specific classes; these are not considered “services” because the benefits to the recipient are educational in nature, and the University does not gain from the activities. Scholarships or fellowships cannot be payments for services rendered as that constitutes a wage and is therefore reportable as such through payroll.

A scholarship or fellowship is a non-taxable payment to a candidate recipient if the terms of the scholarship or fellowship meet IRS guidelines (see below). If *any part* of the scholarship or fellowship falls outside the listed potential exclusions, then that portion is taxable. As an example, if the recipient receives scholarship funds that cover both tuition and room and board, the amount received for tuition is tax-free, while the amount received for room and board is taxable. **Regardless, the entire amount of a scholarship or fellowship is taxable if the recipient is not a candidate for a degree.** As such, postdoctoral fellowships are usually taxable as no degree is being sought. Predoctoral scholarships and predoctoral fellowships are generally without tax consequences as long as the Federal Codes below are met. The recipient should be aware that scholarships and fellowships may have potential for tax consequences.

Per IRS Publication 970, a **candidate for a degree** is a person who:

1. Attends a primary or secondary school or is pursuing a degree at a college or university, or
2. Attends an accredited educational institution that is authorized to provide:
 - a. A program that is acceptable for full credit toward a bachelor's or higher degree, or
 - b. A program of training to prepare students for gainful employment in a recognized occupation.

Stipends are regular allotments or allowances to students to defray living expenses. The stipend does not meet the same requirements as those set forth for scholarships and fellowships; therefore the stipend payment has tax consequences. Stipends are not to be confused with wages. Wages for services are reported through payroll.

Federal Codes:

Per Internal Revenue Code Title 26 Section 117 (b):

(b) Qualified scholarship

For purposes of this section--

(1) In general

The term “qualified scholarship” means any amount received by an individual as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the conditions of the grant, such amount was used for qualified tuition and related expenses.

(2) Qualified tuition and related expenses

For purposes of paragraph

(1), the term “qualified tuition and related expenses” means--

(A) tuition and fees required for the enrollment or attendance of a student at an educational organization described in section 170(b)(1)(A)(ii), and

(B) fees, books, supplies, and equipment required for courses of instruction at such an educational organization.

Per IRS Publication 970, scholarships and fellowships are tax free only if:

- The recipient is a candidate for a degree from an accredited educational institution, whether it is a primary or secondary school, or college or university;
- The recipient uses the scholarship or fellowship to pay for qualified educational expenses such as:
 - o Tuition and fees required to enroll at or attend an eligible educational institution.
 - o Course-related expenses such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in the course of instruction.

- The terms of the scholarship or fellowship do not require that it be used for other purposes, such as room or board, or specify that it cannot be used for tuition or course-related expenses.

Expenses that do not qualify; i.e. *are taxable*:

- Room and board
- Travel
- Research not associated with the completion of a degree (Service-related Research)
- Clerical help
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution
- Fees paid to the institution as a condition of enrollment or attendance

Procedures:

The department requesting payment must appropriately identify the payment as a scholarship, fellowship, or stipend, and indicate the tax status.

The KUMC Research Institute does not give tax advice or assist individuals with their tax issues.

Definitions:

Compensation: wages, tips, and other compensation for work performed subject to income tax withholding.

Fellowship: An amount paid for the benefit of an individual to aid in the pursuit of study or research.

IRS Form 1099: Informational return sent to the IRS to report various kinds of non-wage payments made to individuals. These payments are not subject to tax withholdings but are considered taxable income and required to be reported to the IRS.

IRS form W-2: An employer automatically withholds and pays all of the necessary employee income taxes as required by the IRS.

Office of Management and Budget A-21: Federal circular establishing principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

Scholarship: An amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies.

Stipend: A taxable payment made to an individual in accordance with pre-established levels to provide for the individual's living expenses during the period of training.

Wage: The compensation to an employee, agreed upon by the employee and employer, for work completed by the employee.

Responsible Parties:

The responsibility is ultimately with the recipient of a scholarship, fellowship or stipend to determine if your payment is taxable and to file the appropriate forms on the recipient's individual income tax return.

Exemptions:

None

Related Policies and Links:

Internal Revenue Code Title 26, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=browse_usc&docid=Cite:+26USC117

Internal Revenue Service Publication 970, <http://www.irs.gov/publications/p970/index.html>

Office of Management and Budget Circular A-21, http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html

Contacts:

Vice Chancellor for Research: 913-588-7068

Associate Vice Chancellor for Research Administration: 913-945-6636

Senior Deputy Director and Chief Financial Officer: 913-588-5469

Controller: 913-588-5749

History:

Original Issue Date: 7/15/2008

Current Issue Date: 7/15/2008

RAC approved: 8/26/2008

Effective Date: 9/3/2008