



# Alabama A&M University

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## Policies & Procedures

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**Procedure:** 3.7

**Processing and Tax Treatment of Scholarships, Fellowships, and Stipends**

**Effective Date:** October 1, 2015

**Revised Date:** N/A

**Responsible Office:** General Accounting

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### I. PURPOSE/OBJECTIVE

To establish the procedure for remitting payment and tax reporting for scholarships, fellowships, and stipends. The procedure is developed in accordance with Title 26 Internal Revenue Code 117; Qualified scholarships.

### II. TERMINOLOGY

- a. Compensation - Cash or noncash payments for services rendered. A payment does not have to be labeled as compensation to be considered compensation. Remuneration for performing research for the University is a form of compensation and not a fellowship.
- b. Employee - Any individual, who, under the common law rules applicable in determining the employer-employee relationship, has the status of an employee.
- c. Employment - Any service, of whatever nature, performed by an employee for the person employing him, irrespective of citizenship or residency of such employee.
- d. Fellowship - An amount paid or awarded (generally credited to the student's account) to aid the student in the pursuit of study, usually at the graduate level. A fellowship award may be in the form of a reduction in the amount owed by the payee to an educational organization for tuition, room and board, or other fees (tuition waiver).
- e. Grant - Another term for scholarship/fellowship (generally credited to the student's account) that implies the student is not required to repay the amount, i.e. PELL Grant.
- f. Grant in Aid - Another term for scholarship/fellowship (generally credited to the student's account). It is most commonly awarded for extracurricular participation, i.e. sports, band, choir, cheerleading, Student Government Association President, etc. The award may also be granted based on need or other criteria as defined by the University.

g. Scholarship - To be considered a scholarship, an amount is **not** required to be formally designated as such. It is generally a merit based amount paid/awarded (generally credited to the student's account) to aid the student in the pursuit of study at an educational institution. A scholarship award may be in the form of a reduction in the amount of tuition, room and board, or other fees owed by the student to the university. This is often referred to as a "waiver".

h. Stipend – A payment provided to the student attributable to one of the following:

Provided as a subsistence allowance to help defray living expenses

Provided for participation in a program, event, project, etc. (*example - high school students participating in the Upward Bound Program*)

Provided on the condition (requires) that the student teaches, conducts research, or provides other services

Provided for a specific educational expense (*example – books, school supplies, required fees, etc.*)

### III. PAYMENT METHODS

<u>Award</u>	<u>Payment Method</u>
Compensation	Payroll
Fellowship	Credit to student's account
Grant	Credit to student's account
Grant-in-aid	Credit to student's account
Scholarship	Credit to student's account
Stipend – Subsistence Allowance	Accounts Payable
Stipend – Participation	Accounts Payable
Stipend – provided as a required condition	Payroll
Stipend – specific educational expense	Credit to student's account

#### IV. COMPLIANCE RESPONSIBILITY

Where stipends are funded by federal grants or contracts, the determination of the type of “stipend”, which determines the payment method, is the responsibility of the Principle Investigator (PI). The verification of the stipend type is the responsibility of the respective compliance office. The PI’s department and respective compliance office will be held liable for the incorrect submission of stipend requests. Any resulting tax penalties will be charged to the PI’s departmental budget.

Where stipends are funded by unrestricted funds, the determination of the type of “stipend”, which determines the payment method, is the responsibility of the budget manager for the budget from which the stipend is awarded. The verification of the stipend type is the responsibility of the Comptroller’s Office staff person responsible for tax matters. Any resulting tax penalties will be charged to the departmental budget from which the stipend was awarded.

#### V. INCOME TAX REPORTING

The federal tax treatment of qualified scholarships and fellowship grants is addressed in section 117 of the Code. Section 117(a) provides **that gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree** at an educational organization described in section 170(b)(1)(A)(ii) (describing, generally, a school). *If a student is not a candidate for a degree, all awards are taxable.*

To be considered a scholarship or fellowship grant, an amount need not be formally designated as such. Generally, a scholarship or fellowship is any amount paid to or allowed for the aid of an individual in the pursuit of study or research. A scholarship or fellowship grant may be in the form of a reduction in the amount owed by the recipient to an educational organization for tuition, room and board, or any other fee.

Only "qualified scholarships" may be excluded from income. A qualified scholarship is defined as an amount expended for "qualified tuition and related expenses." Qualified tuition and related expenses are tuition and fees required for the enrollment or attendance of a student at an educational institution, and fees, books, supplies, and equipment required for courses of instruction at such an educational organization. Amounts received for room, board, travel, and incidental living expenses are not related expenses. Thus, scholarship receipts that exceed expenses for tuition, & fees, books, supplies, and certain equipment are not excludable from a recipient's gross income under section 117.

**Section 117(c) of the Code provides that the exclusion for qualified scholarships shall not apply to that portion of any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship or fellowship.**

**A scholarship or fellowship grant represents payment for services when the grantor requires the recipient to perform services in return for the granting of the scholarship or fellowship. A requirement that the recipient pursue studies, research, or other activities primarily for the benefit of the grantor is treated as a requirement to perform services. A scholarship or fellowship grant conditioned upon either past, present, or future services by the recipient, or upon services that are subject to the direction or supervision of the grantor, represents payment for services under this Section.**

The table below identifies the Tax reporting method for each of the types of awards made by the University. Whether or not the amount reported results in a tax liability depends on the recipients tax status, classification, total taxable income, or other income tax criteria.

<u>Award</u>	<u>Payment Method</u>	<u>Tax Reporting Method</u>
Compensation	Payroll	W-2
Fellowship	Credit to student's account	1098-T
Grant	Credit to student's account	1098-T
Grant-in-aid	Credit to student's account	1098-T
Scholarship	Credit to student's account	1098-T
Stipend – Subsistence Allowance	Accounts Payable	1099
Stipend – Participation	Accounts Payable	1099
Stipend – provided as a required condition	Payroll	W-2
Stipend – specific educational expense	Credit to student's account	1098-T