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# Non-Financial Aid Payments to Students

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## PRESENTERS

SHERRY PICKERING – DIRECTOR, LEGAL REPORTING & TAX

RICHARD R. MARQUEZ – SYSTEMWIDE TAX & LEGISLATION COORDINATOR

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All payments to students should be reported to Student Financial Aid.

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# Gross Income

Section 61(a) of the Internal Revenue Code defines gross income as income from whatever source derived, including (but not limited to) “compensation for services, including fees, commissions, fringe benefits, and similar items.” I.R.C. § 61(a).

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- Reporting and taxation of student payments are governed by the Internal Revenue Code (the "Code") and Treasury Regulations are enforced by the IRS. Section 117 of the Code provides rules for determining whether a payment amount is a compensatory or non-compensatory grant.
- IRS Publication 970, Tax Benefits for Education (<https://www.irs.gov/pub/irs-pdf/p970.pdf>), explains the tax rules for determining 1) when a payment is a scholarship or fellowship payment, 2) the various types of payments typically treated as non-compensatory grants, and 3) when a non-compensatory grant can be excluded from income.

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Student, full or part-time who either:

- attends a primary or secondary school or is pursuing a degree at a college or university.

OR

- attends an educational institution that is authorized or accredited to provide a program that is acceptable for full credit toward a bachelors or higher degree, or to provide a program of training to prepare a student for gainful employment in a recognized occupation.

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- Source of the Payments
- Use of the Payments
- Recipient of Payments
- Reporting the Payments

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Fund Restrictions

Donor or Grant

Statutory

Policy



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# Use of the Payments

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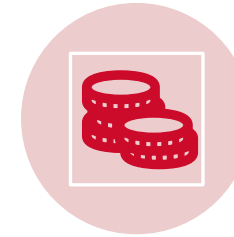
WAGES



SCHOLARSHIPS



AWARDS/PRIZES



REIMBURSEMENTS

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Wages Key Question – Who benefits?

Direct benefit = Likely wages, analyze for [independent contractor](#)

No direct benefit = Likely Scholarship

- Requirements that a recipient furnish periodic reports for the purpose of keeping the grantor informed as to the general progress of the individual does not constitute the performance of services.

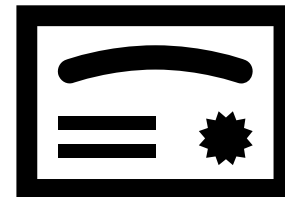
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### Qualified Scholarships

A qualified scholarship is the amount of a scholarship or fellowship grant that is used for tuition and fees, books, supplies, and equipment required for courses. Items must be required of *all* students in a course of instruction to be tax free. If equipment or supplies is merely "suggested" for the course, the amounts do not qualify as qualified scholarships.



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### **Non-Qualified Scholarships**

Any amounts received for incidental expenses or by a non-degree candidate are taxable scholarships/fellowships. Incidental expenses include room and board, travel, and expenses for equipment and other items that are not required for either enrollment or attendance in a course of instruction.



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### Awards/Prizes

Prizes and awards are payments in recognition of charitable, scientific, educational, artistic, literary, or civic achievement, or are received as the result of entering a contest. Recipients are selected based on their actions to enter a contest, competition or proceeding. Drawing gifts or monetary payments are also classified as prizes. Prizes and awards are always taxable.



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### Reimbursements

An amount paid to a student to make the individual whole for an out-of-pocket expense incurred. Reimbursement requests must be supported by original documentation, or receipt, including the purpose of the purchase (accountable plan rules).

**Accountable plan rules:** the IRS rules that govern how employers can repay individuals without tax consequences for business expenses the individual incurs on the employer's behalf.



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# Recipient of Payments



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## IRS Tax Status Categories

1	U.S. Citizen
2	Permanent Resident Alien (including DACA individuals)
3	Resident Alien for Tax Purposes (RA)
4	Nonresident Alien for Tax Purposes (NRA)

*All treated as residents for tax purposes.*

*Treated as nonresidents for tax purposes.*

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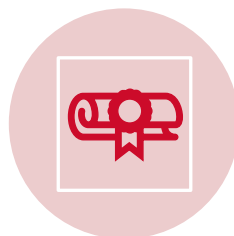
# Reporting the Payments

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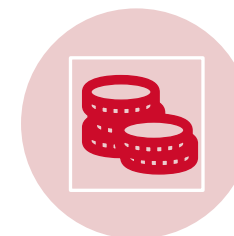
WAGES



SCHOLARSHIPS



AWARDS/PRIZES



REIMBURSEMENTS

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## COMPENSATION

US Citizen/Resident Alien (Both)

- Compensation is taxable to the student and reported on a W-2.

Nonresident Alien

- Compensation is taxable to the student and reported on a W-2, with treaty earnings reported on a 1042-S.

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## SCHOLARSHIPS

Type	Resident for Tax	Nonresident for Tax
Qualified	No withholding Reportable 1098-T	No withholding Exception to 1098-T, unless requested
Non-qualified	No withholding Reportable 1098-T	Withholding at either 30% or 14% or per treaty Reportable 1042-S

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## Awards/Prizes

### US Citizen/Resident Alien (Both)

- Prizes/awards are taxable to the student and reported on a 1099-MISC.

### Nonresident Alien

- Prizes/awards are taxable with withholding at a 30% rate and reported on a 1042-S.

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## Reimbursements

US Citizen/Resident Alien (Both)/Nonresident Alien

- Reimbursed expenses, with receipts, are not taxable to the student and not reported.

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# Questions?

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## Tax Advice

CSU cannot provide individual income tax advice.

- Be cautious in advising students, employees, etc. on tax issues.
- Only provide information as necessary to complete the CSU's tax filing obligations.



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## References (Links)

- [CSU Independent Contractor Guidelines - Independent Contractor vs Employee Determinations - Update](#)
- [Gross Income - I.R.C. § 61\(a\)](#)
- [Qualified Scholarships - I.R.C. § 117](#)
- [IRS Publication 970, Tax Benefits for Education](#)