



IMPORTANT INCOME TAX INFORMATION FOR SCHOLARSHIP RECIPIENTS

The Federal Tax Reform Act of 1986 included major changes to the income tax treatment of student scholarship and fellowship grants.

1. WHAT IS NOT TAXABLE?

As long as the recipient is a degree candidate, the portion of the award that is used for tuition or fees and related expenses required for enrollment (such as books, supplies, and equipment required for courses) is not subject to income tax. If the recipient is not a degree candidate, the entire amount of the award is taxable.

2. WHAT IS TAXABLE?

Grand amounts (including stipends and tuition reductions) used for other expenses, such as room and board, travel, research, clerical help, or equipment not actually required for enrollment, are subject to income tax. Also taxable are those portions of a scholarship or grant representing compensation for services such as payment for teaching or research, even if the services are required as a condition of receiving the grant. These payments are considered wages and are subject to payroll tax withholding.

3. WHO IS RESPONSIBLE?

In cases where a portion of the grant is payment for services, the grantor (Le., the University Foundation) will make a good faith allocation, specifying the portion of the grant that is compensation and therefore subject to withholding. The portion of the grant that is compensation will be processed through the payroll, and the Foundation is required to withhold income and employment taxes on such amounts.

On the other hand, the Foundation is not required to withhold or to file an IRS Form 1099 on the portion of award amounts that exceed tuition and related expenses, even though these amounts are taxable to the recipient. The responsibility for determining whether the grant is, in whole or in part, includable in gross income (i.e., taxable) falls to the recipient of the scholarship or award. In other words, the recipient is responsible for determining whether the grant was used for qualified tuition and related expenses or for other purposes.

4. FOR MORE INFORMATION

For tax advice, recipients should consult their accountants or tax preparers.