



## **STUDENT PAYMENT CATEGORIES**

**Student payments are classified into four general categories:**

1. Payment that is compensation for services rendered (employment),
2. Educationally related awards whose primary purpose is to assist students in financing their education (scholarships/grants/fellowships),
3. Non-educational direct payments to students that provide for reimbursement of University business expenses or other non-educationally related activities (prizes/awards/reimbursements),
4. Stipends.

### **1. COMPENSATION FOR SERVICES RENDERED (EMPLOYMENT)**

A payment is considered compensation for services if:

- the amount represents payment for past or present employment services,
- the student is paid a fair market value wage for the service provided, and
- an employee/employer relationship exists, which is defined as:
  - The work to be performed is part of the regular business activity of the University, includes planned time schedules and breaks.
  - The student is subject to discipline or discharge under University personnel policies and may be discharged at the University's discretion.
  - The individual can quit or be terminated at any time and payments will only be made for services already rendered.

Examples of student employment include work as a student assistant, work study student, lab assistant, tutor, exam proctor or research assistant.

**Effect on Financial Aid Eligibility:** Payment for employment does not directly affect a student's eligibility for need-based federal, state or institutional aid. Students receive W-2 forms and earnings are accounted for in a student's adjusted gross income, if applicable, when they apply for financial aid for the next year.

### **2. EDUCATIONALLY RELATED AWARDS (SCHOLARSHIPS/GRANTS/FELLOWSHIPS)**

The taxability of educationally related awards is governed by Internal Revenue Code (IRC) Section 117. This type of award is defined as an amount paid or allowed to, or for the benefit of, a student to aid such individual in pursuing his studies, including independent research that does not directly benefit the grantee. Individuals receiving educationally related awards do not provide services to the grantor where the grantor benefits from the work or research done by the individual.

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

## SCHOLARSHIPS

A scholarship is generally an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be in either a graduate or an undergraduate program. Scholarships can be either qualified or nonqualified:

- A qualified scholarship is one which is used to pay for tuition and related expenses at a qualified educational institution, such as any of the CSU schools. Tuition includes amounts paid for enrollment and “related expenses,” including such things as fees, books, supplies and equipment for courses. A qualified scholarship is **nontaxable** to the recipient.
- A nonqualified scholarship is one which is used to pay for all other student expenses, such as room, board and travel. A nonqualified scholarship is generally **taxable** to the recipient.

With regard to payment of travel costs, if the payment is made in support of the student’s educational pursuits (i.e. directly benefits the student and not the university), it is a scholarship.

## GRANTS

Grants are gifts of money to students who meet certain eligibility criteria that do not have to be earned or repaid. Grants may or may not be need-based.

## FELLOWSHIPS

A fellowship is an amount paid for the benefit of an individual to aid in the pursuit of study or research. Generally, fellowships are short-term opportunities lasting from a few months to several years with a focus on professional development. Fellowships are sponsored by a specific association or organization seeking to expand leadership in their field. Fellowships have traditionally been awarded to graduate and post-graduate students. Fellowships provide a living allowance that is typically not comparable to the salary of a full-time job.

**Effect on Financial Aid Eligibility:** Federal and State regulations require the University to coordinate and review all educationally related awards a student is receiving in determining their eligibility for need-based federal, state, and institutional aid. *This coordination must happen even if the need-based aid has already been disbursed to the student.* In general, the combination of all awards cannot exceed a student’s financial aid need. If it does, need-based aid must be adjusted, normally reducing the student’s loan burden or work-study obligation.

### **3. NON-EDUCATIONAL DIRECT PAYMENTS (PRIZES/AWARDS/REIMBURSEMENTS)**

#### PRIZES/AWARDS

The taxability of prizes is governed by IRS Section 74. A prize is cash or other tangible personal property bestowed in recognition of outstanding achievement in teaching, research, academic performance or other performance-related activities. They can be distinguished from scholarships in that scholarships are granted for future educational activities and prizes are issued to honor past achievements or award-winning contestants in competitions. Prizes are generally taxable and are reported on Form 1099-NEC if they meet the reporting threshold.

It should be noted that a scholarship prize won in a contest is not a scholarship where there is no requirement that it be used for educational purposes. But, if the winner can only use the prize money to pay tuition, the prize is a scholarship.

## EXPENSE REIMBURSEMENTS

Nontaxable expense reimbursements made pursuant to an accountable plan generally pertain to employees. Accountable plan rules can also be extended to independent contractors and volunteers. It is under very narrow circumstances that a payment to a student will be deemed an expense reimbursement. The pertinent rule is that reimbursements can only be made for business expenses incurred by an employee in connection with the performance of the employee's duties. A nonemployee student, therefore, can only receive a non-taxable reimbursement if incurring expenses on behalf of the university. Otherwise, will be reported on Form 1099-NEC if meets reporting threshold. Examples of situations where reimbursement is appropriate include:

- Where the expense incurred directly supports a faculty member's project or research program.
- Where the student incurs expenses when representing the university in the presentation of research at a conference or as part of a University competitive team.

## **4. STIPENDS**

The term "stipend" is used broadly to describe a variety of student payments. Stipends may be paid for class participation and/or general educational support. Stipends may have accompanying terms and conditions, and the stipend may be gradually adjusted or completely suspended if those terms and conditions are not met. Terms and conditions may include enrollment in a particular degree program, participation in program activities, or maintaining a minimum grade point average. Any such terms and conditions will be stipulated in the award agreement issued by the sponsor.

If the recipient is a candidate for a degree, he/she can generally exclude from income that part of the stipend used for qualified educational expenses (tuition, enrollment fees, books and supplies, other expenses required for enrollment or attendance). The recipient cannot exclude from income any part of the stipend not required by the institution and used for other purposes, such as housing, meals, living allowances, travel, non-required supplies.

**\*\*Sponsoring agencies and faculty commonly use the terms "stipend" or "participant support" to describe student financial assistance. Federal and State tax regulations do not define the term "stipend" but use the terms 'scholarship' and 'fellowship.'"**

**Stipend vs. Wages:** The term "stipend" is sometimes misused to describe minor payments for services. However, these payments constitute an employer relationship and are considered taxable wages. A stipend can only be used for training and educational purposes related to a sponsored program. A stipend cannot be used to pay for an individual to work or services performed, or as incentive pay.

In some instances the stipend recipient may be required to attend certain classes or perform certain activities as a condition of receiving the stipend. These can still be considered stipends and not considered services (wages), as long as the (educational) benefit of the activities lays clearly with the recipient and the paying institution does not derive any benefit from the activities.

**No "Quid Pro Quo":** Stipends cannot be paid for any services rendered. Any amount paid for a service rendered is considered a "wage" under the IRS regulations and must be processed and taxed as a salary or wage. This includes payment for teaching, research or other services rendered as a condition for receiving the scholarship or tuition reduction. These payments are considered compensation even if the services are a condition of receiving the funds or are required of all candidates for the degree.

**APPENDIX**

<b>PAYMENT TYPE</b>	<b>TAXABILITY</b>	<b>REPORTING MECHANISM</b>	<b>CAMPUS DEPT</b>
Wages/Employment	Taxable	W2	Payroll Services KNDL 220, zip 0010, ext. 6771
Educationally-Based Awards (Scholarships/Grants/Fellowships)	Qualified – Nontaxable  Nonqualified - Taxable	1098-T	Student Financial Services  SSC 230, zip 0242, ext. 5936
Non-Educational Direct Payments (Prizes/Awards)	Taxable	1099-NEC	Accounts Payable  KNDL 208, zip 0243, ext. 6426
Non-Educational Direct Payments (Reimbursements under accountable plan)	Nontaxable	N/A	Accounts Payable  KNDL 208, zip 0243, ext. 6426
Stipends (when referring to wages/employment)	Taxable	W2 or 1099- NEC	Work with HR Employment Services/AP to determine best origination point
Stipends (when referring to educationally based awards)	Taxable	1099-NEC	Accounts Payable  KNDL 208, zip 0243, ext. 6426

**Miscellaneous Tax Information:** The university will, but is not legally responsible to, report any scholarship, fellowship, grant or stipend on Form 1099-NEC. A scholarship, fellowship, or stipend, in all or part may be taxable, even if the recipient did not receive a W-2 or 1099-NEC form, under the Internal Revenue Service (IRS) Code Section 117. Generally the entire amount is taxable if the recipient is not a candidate for a degree.