



Alabama A&M University

Policies & Procedures

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

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.

- 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
 - Another term for scholarship/fellowship 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 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 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

IV. COMPLIANCE RESPONSIBILITY

Where stipends are funded by federal grants or contracts, the determination of the is the responsibility of the Principle Investigator (PI). The verification of the stipend type is the responsibility of the respective compliance office.

office will be held liable for the incorrect submission of stipend requests. Any resulting tax penalties will be cha

Where stipends are funded by unrestricted funds, the determination of the type of dget manager for the budget from which the stipend is awarded. The verification of the stipend type is the responsibility of the 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 n alranHf det1y,1 a1-339(sc)3(hol)-11(a)4rshi20(pe5ETB 12 Tfne)4n)-(pe5E99(e)E

