

110 Payments to Students

Payments to students require special attention and monitoring due to the potential tax implications, federal financial aid compliance, or both. In addition, students sometimes enjoy special tax status due to the nature of their relationship with the university.

All payments to students should be characterized as one of the following:

- Compensation or fee-for-service payments
- Scholarships, fellowships, and other academic awards (not associated with compensation)
- Payments to defray and/or reimburse a student's travel or research
- Reimbursement for expenses incurred for the benefit of the University

Compensation/Fee-for-service

If an individual must teach, research, or otherwise provide services to receive payment, then the amount may not be treated as a qualified or non-qualified scholarship. Payments for services, past, present, or future, are considered wages and must be paid through the payroll process. Determining the nature of the payment as a scholarship/fellowship or compensation is based on the nature of the payment, whether the recipient was "paid to work" or "paid to study". Are the student's activities for the primary benefit of the educational organization (work) or do they further the student's education and training (study)?

Fee-for-service payments include occasional labor arrangements for which students are asked to utilize special skills that may be related to their course of study. For example, music majors may be asked to play an instrument at a university event or photography majors may be asked to provide photography services for the University. In such cases, these payments should be characterized as compensation.

Scholarships and Fellowships and Academic Awards

Scholarships, fellowships, and academic awards are often non-taxable to the recipient if they are used to pay tuition and fees, books, supplies, and equipment required for courses. Scholarship and fellowship payments are not subject to withholding, unless the payment is made to a non-resident alien (NRA). However, reporting may be required on Form 1098-T. In addition, if a student receives any form of federal financial aid, the university is required to coordinate the awarding of scholarships or fellowships with such aid. As a result of these reporting and compliance requirements, all forms of scholarships, fellowships, and academic awards are managed and disbursed by the Student Financial Services office.

In some cases, scholarships require some form of performance by the student. Performance-based scholarships are designed to help students defray the cost of their education by performing on behalf of the University. Examples include athletic scholarships, cheerleading scholarships, and music scholarships. In such cases, these students must meet certain performance requirements as a condition of their scholarship. For example,

- A student-athlete must participate in practices and competitions to receive an athletic scholarship

- An instrumental music major must attend practices, rehearsals, and perform in certain ensembles to receive a music scholarship

Such scholarships are distinguished from fee-for-service based on the nature of the service performed and whether it primarily benefits the University (compensation) or furthers the student's education and training (scholarship). However, in some cases, awards and prizes may be considered taxable income to the recipient student. If there is no expectation that the prize or award be used to pay academic costs of attendance, such payments will normally be treated as a taxable award. Examples include awards disbursed to students who are no longer enrolled due to graduation and awards disbursed for winning a judged competition.

Travel or Research Payments

For tax and compliance purposes, payments to a student for travel or research must be classified as either payments which primarily benefit the student or payments which primarily benefit the University.

- Payment of expenses for travel or research initiated and conducted by the student (the student's own research project, thesis, dissertation, etc.) or payment of funds from a grant specifically for the purpose of enriching the student's education are considered related to the student's academic program. Such payments should be characterized as an Academic Award for tax and compliance purposes.
- Payment of funds to defray or reimburse authorized personal expenses for participation in a university activity (e.g. accompanying research faculty to present at an academic conference) are considered University-related expenses and are considered expense reimbursements for tax and compliance purposes.

Expense Reimbursements

Students, whether or not they are also employees, may be reimbursed for expenses incurred on behalf of the university when there is a direct connection between the expense and the business purposes of the University. Such reimbursements are not reportable to the IRS as income to the student, provided the required documentation is submitted. Business related expenses reimbursable to students include:

- Expenses incurred by a student, necessary to further a department member's research project or otherwise to fulfill the University's obligations under a contract or grant.
- Expenses to attend a conference/event at which the student is officially representing University at the request of a department member.
- Reimbursement for departmental operating supplies and business entertainment (e.g. meal purchased for a departmental meeting).

Such reimbursements should be submitted to Accounts Payable through Ignite with appropriate documentation provided.

The attached flowchart is designed to assist users in determining the appropriate routing of payments to students to assure compliance with the requirements described above.

The Student Financial Services office has primary responsibility for determination the nature of payments to students and should be consulted on any questionable or unclear payments.

Processing of request for payment to a student

