

110.1 Scholarships and Fellowships

Scholarship or fellowship grants may be paid in cash to an undergraduate or graduate student or may be a reduction in the amount owed by the recipient for tuition, room and board, or any other charges. Scholarship or fellowship grants are classified as qualified or non-qualified, depending on the nature of the payment and the status of the recipient. Three criteria are important to the determination of qualified or non-qualified scholarship or fellowship grants.

1. Whether the amount is used to pay qualified expenses (*IRC 117(b)*)
2. Whether the individual is a degree-seeking student (*IRC 117(a)*)
3. Whether the amount represents “payment for teaching, research, or other services” (*IRC 117(c)*)

Qualified Scholarships and Fellowships

Qualified scholarships and fellowships are non-taxable to the recipient and are limited to the amount used for tuition and fees, books, supplies, and equipment required for courses. These items must be required of all students to be considered qualified. The recipient must be a degree-seeking student.

Non-Qualified Scholarships and Fellowships

Any amounts paid for incidental expenses or paid to non-degree seeking students are non-qualified and taxable to the recipient. 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.

Compensation for Services

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)?

Refer to the special section on Post-doctoral Fellowships and Graduate Assistants for further guidance on distinguishing scholarships and fellowships from payments for services.

Reporting

Scholarship and fellowship payments are not subject to withholding, unless the payment is made to a non-resident alien (NRA). See the section on Non-Resident Aliens for special rules regarding these payments. However, reporting may be required on Form 1098-T. Compensation for services is subject to income tax withholding requirements and must be reported on Form W-2.

The Financial Aid office has primary responsibility for scholarship and fellowship determinations and should be consulted on any questionable or unclear payments.