

Scholarship and Fellowship Payments to Nonresident Alien Students Determination, Checklist, and Examples

Qualified Scholarship and Fellowship Determination:

1. Is the payment to the nonresident alien student to compensate him/her for past, present, or future services?
2. Is the payment for study or research primarily for the benefit of the grantor and/or University?

If the answer to either of the above questions is “YES”, the payment is not a scholarship or fellowship. The full amount should be forwarded to your Campus HR office to be processed as a job or to OBFS, University Payroll & Benefits with appropriate foreign national documentation. **STOP HERE.** The remainder of this document does not apply.

If both of the above answers are “NO”, proceed to determine whether or not the payment constitutes a qualified education expense.

Qualified Education Expenses:

1. Were the payments made for any of the following expenses:
 - a. Tuition,
 - b. Fees,
 - c. Books,
 - d. Supplies, or
 - e. Equipment?
2. Were the expenses required for:
 - a. Enrollment,
 - b. Attendance, or
 - c. All students in the course?
3. Is the nonresident alien student a candidate for a degree?

If the answers to one, two, **and** three above are “YES”, the payment is a qualified education expense. Any part of the scholarship or fellowship that does not meet **all** of the criteria in this section is considered a taxable scholarship or fellowship to the nonresident alien student and it subject to tax withholdings. Please proceed and complete the following Checklist.

Examples of non-qualified education expenses include room, board, and travel.

SCHOLARSHIP AND FELLOWSHIP PAYMENTS TO NONRESIDENT ALIEN STUDENTS CHECKLIST

Departments have the three options as indicated below when paying scholarships and fellowships to nonresident alien students. Please check the appropriate box(es) after the facts and circumstances for each situation have been determined. Please note that Financial Aid or OBFS, University Payroll & Benefits will verify enrollment before payments are processed.

- #1 - Unit Certifies Scholarship or Fellowship Funds are Restricted for Qualified Education Expenses only, where there would not be a tax liability.**

When a scholarship or fellowship is restricted by the terms of the payment, the Department needs to review the written terms of the scholarship or fellowship to determine if the use is restricted for qualified education expenses. If the scholarship or fellowship is restricted to **qualified education expenses, such as tuition, fees, books and required expenses as previously defined**, the funds are not subject to tax reporting or withholding. However, the Department must complete the certification below and maintain this signed and dated certification in its records for at least four (4) years from the date signed below.

Financial Aid processes these scholarships or fellowships. The full amount of the scholarship or fellowship is applied to the nonresident alien's student account. If a balance is not owed to the University, the nonresident alien student receives either a direct deposit or a check for the balance.

I certify that the use of this scholarship or fellowship is restricted solely for qualified educational expenses. If the scholarship is not restricted and taxes and penalties are assessed to the University, I understand my unit would be responsible for these costs.

Signature and Title

Date

#2 - Gross-Up Scholarship or Fellowship, Thereby Treating the Payment as a Non-Qualified Educational Expense where the University assumes the scholarship or fellowship is taxable and the University is paying the tax.

When a scholarship or fellowship is grossed-up, the Department is responsible for paying the nonresident alien student's tax liability. Therefore, the Department will be charged the additional amount for taxes. The nonresident alien student will receive the full amount of the scholarship or fellowship. Unless a tax treaty exists, the nonresident alien will be taxed on the scholarship or fellowship, as well as the amount of tax that the Department pays on behalf of the nonresident alien student.

OBFS, University Payroll & Benefits processes these scholarships or fellowships. The Department must complete the [Student Account Payment Request Form](#) indicating the gross-up of the payment (including the FOAPAL to charge for the taxes if different from the scholarship or fellowship FOAPAL). This Checklist does not need to be attached to the Form.

The full amount of the scholarship or fellowship is applied to the nonresident alien's student account. If a balance is not owed to the University, the nonresident alien student receives either a direct deposit or a check for the balance.

#3 - Net Scholarship or Fellowship where the University assumes the scholarship or fellowship is taxable and the student is paying the tax.

When a scholarship or fellowship is netted, the nonresident alien student's tax liability will be withheld from his/her scholarship or fellowship. The nonresident alien student will not receive the full amount of the scholarship or fellowship. The amount received will be the scholarship or fellowship less the amount of tax withheld.

OBFS, University Payroll & Benefits processes these scholarships or fellowships. The Department must complete the [Student Account Payment Request Form](#). This Checklist does not need to be attached to the Form.

The net amount of the scholarship or fellowship is applied to the nonresident alien's student account. If a balance is not owed to the University, the nonresident alien student receives either a direct deposit or a check for the balance.

EXAMPLES

Example 1. Nonresident alien student receives a \$500 fellowship. Department reviews the written terms of the fellowship, which restricts use of the fellowship funds to tuition, which is a qualified education expense. The student receives the full \$500 fellowship credit to her student account. Option number one should be checked. Department certifies that the use of the fellowship is restricted to qualified education expenses.

Example 2. Nonresident alien student receives a \$500 fellowship. Department wants to ensure student receives 100% of the fellowship. Student does not provide Department with documentation to substantiate qualified education expenses. Option number two should be checked. Therefore, student will receive a grossed-up fellowship and the Department will be charged for the student's taxes.

Student is on an F-1 visa. A tax treaty does not exist. The student is taxed at a federal rate of 14% and a state rate of 3.75%. Gross-up amount is \$607.90. The student receives \$500 credit to her student account. Department is charged for the student's taxes amounting to \$107.90.

Gross amount	\$607.90
Federal Tax	85.11
State Tax	<u>22.79</u>
Net payment to <u>student</u>	<u>500.00</u>

Example 3. Nonresident alien student receives a \$500 scholarship. Department does not have the funds to pay the student's taxes. Student does not provide Department with documentation to substantiate qualified education expenses. Option number three should be checked. Therefore, student will receive the net amount of the scholarship.

Student is on an M-1 visa. A tax treaty does not exist. The student is taxed at a federal rate of 14% and a state rate of 3.75%. The tax totals to \$88.75. The student receives a net amount of \$411.25 applied to his student account.

Gross amount	\$500.00
Federal Tax	70.00
State Tax	<u>18.75</u>
Net payment to student	<u>411.25</u>