



OVERVIEW:

Federal Courts have consistently held that "scholarships" are relatively disinterested, "no-strings" educational grants, with no requirement of any substantial services from the recipients. Any amount paid or allowed to, or on behalf of, an individual to enable him/her to pursue studies or research:

- (1) Primarily to further the student's education and training and provided by the University for such purpose does not represent compensation or payment for services. Merely requiring the recipient to provide periodic progress reports to the University or the fact that the research or study results may provide an incidental benefit to the University is not enough to treat the payment as compensation for services. Such amounts are treated as scholarships, which are not subject to tax withholdings, but are reported as scholarships on IRS Form 1098-T. OR
- (2) Primarily for the benefit of the University is considered to be for services performed and deemed taxable compensation (or depending upon the circumstances, treated as a **University business expense reimbursement**). Compensation for services is treated as taxable wages, which are subject to the appropriate tax withholding and are reported on IRS Form W-2. In general, University business expense reimbursements are not subject to tax withholdings and are not reported as taxable income.

Note: Not all of the following statements within the Notes below may be relevant in each situation.

****International students may be subject to different reporting requirements and withholding rules. Contact Tax Reporting with any questions****

NOTE 1: Is there a service requirement?

Yes if:

- Substantial conditions are attached to the payment, which exceed the incidental duties as a student
- Student receives payment that enables him/her to pursue research (or studies) primarily for the benefit of the University. See Note 2 for additional information.

NOTE 2: Is the University the primary beneficiary?

Yes if:

- The University's primary purpose and original intent is for the University to obtain useful results from the activity
- Results or research will be used by the University
- University determines activities
- Services are performed to fulfill University's obligations to outside funding entity
- University would otherwise need to hire an employee or contractor to complete the same results
- Student is selected based on his/her experience
- Amount of payment is based on amount of compensation to employees performing similar activities

NOTE 3: Is the University the primary beneficiary?

No if:

- The payment is for an activity or area in which the University is relatively disinterested, no strings are attached, and no substantial service requirements are imposed on the student
- The activity's primary purpose and original intent is to further the student's education or training
- University obtains no or, at most, only an incidental benefit
- Tasks are performed to contribute to the development of skills needed in the student's studies
- Student determines activities to be performed
- Student is selected to further his/her education or training

NOTE 4: Is the expense reimbursement or travel advance related to the student's education?

Yes if:

- Activities performed primarily to further student's education
- Activity is an integral part of student's degree work
- Activity is supported by student's scholarship/grant
- Activity or course is required for degree or credit
- Activity impacts student's grade
- Student merely listens and learns to further his/her education

NOTE 5: Is the expense reimbursement or travel advance related to Education?

No if:

- Directly supports faculty member's project or research program
- Is related to presenting or actively participating at a conference or scholastic competition on behalf of the University
- Is official University business (i.e., performed primarily for University purposes, such as job training, University Athletics, University band performances or expense incurred on behalf of department)