What we will “talk story” on:
1. Historical tax background of scholarship and fellowship.
2. Key definitions in AP 8.561
3. Tax treatment matrix on “Grant in Aid” payments
4. KFS “Grant-in-Aid” (DV) tab
5. Q & A
Historical Tax Background of Scholarship / fellowship

- Prior to 1986, all scholarship was nontaxable.

- Tax Reform Act of 1986 defined which scholarship fellowship are taxable and which are not taxable.

- Also included in definition that scholarship is not payment for services, past, present or future.

- Tuition reductions cannot be classified as scholarship if someone had to do work for it. (i.e. grading paper for tuition reductions)

Key definitions in AP 8.561

1. Scholarship is defined as an amount paid or allowed to, or for the benefit of, a student (whether a primary/secondary school student, undergraduate, or graduate) at an educational institution to aid in the pursuit of his or her studies.

2. Fellowship is defined as an amount paid for the benefit of an individual to aid in the pursuit of study or research.

3. Tax Stipend is defined as a fixed sum of money paid periodically for services or to defray expenses. A stipend may include, but is not limited to, scholarship, fellowship, honorarium, prize, awards, etc. As a result, tax treatment may differ based on the purpose of the stipend payment.

...what, who, why...
Key definitions in AP 8.561 (cont’d)

1. Qualified Scholarship/Fellowship are payments scholarship or fellowship must be used for tuition, fees, books, supplies, and equipment required for enrollment or attendance at the educational institution (i.e., required for all students in the course at the educational institution)

2. Non-qualified scholarships/fellowships are often provided for room, board, and other types of expenses, such as travel costs.

3. General Program Expense is defined as any costs supporting activities of educating or instructing students for imparting knowledge or skill that fulfills the purpose of the academic program.
### Tax Treatment Matrix on "Grant in Aid"

#### Grant in Aid Payments

<table>
<thead>
<tr>
<th>PROCESSING</th>
<th>US CITIZEN*</th>
<th>NON US CITIZEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualified</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UH student</td>
<td>Non UH student</td>
<td>UH student</td>
</tr>
<tr>
<td>Cost of Attendance (e.g. Student Housing and/or Meal plans)</td>
<td>Non-Cost of Attendance (e.g. Fellowship and/or Travel)</td>
<td></td>
</tr>
<tr>
<td>Banner</td>
<td>KFS-DV</td>
<td>Banner</td>
</tr>
</tbody>
</table>

#### Tax Reporting

<table>
<thead>
<tr>
<th>Code</th>
<th>US</th>
<th>UH</th>
<th>Non UH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1098T</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>1099MISC</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>1042S</td>
<td>N</td>
<td>N</td>
<td>N</td>
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</tbody>
</table>

#### Object Codes to Use

<table>
<thead>
<tr>
<th>Code Description</th>
<th>6500</th>
<th>6500</th>
<th>6500</th>
<th>6500</th>
<th>6500</th>
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<th>6500</th>
<th>6500</th>
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</tr>
</thead>
<tbody>
<tr>
<td>6500 - Grant-in-Aid - Scholarship/Fellowship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6503 - Grant-in-Aid Scholarship/Fellowship (Reportable)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>6503</td>
<td>6503</td>
</tr>
<tr>
<td>6510 - Grant-in-Aid - Tuition</td>
<td>For sponsored agreements that require a specific tuition object code for tracking and ICR calculations</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6516** - Grant-in-Aid - Tuition Loan Repayment</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>6540 - Grant-in-Aid - Travel</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<td>6540</td>
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<td>NA</td>
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</tr>
<tr>
<td>6543 - Grant-in-Aid - Travel (Reportable)</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>6543</td>
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</tbody>
</table>

* Includes Permanent Residents and Resident Aliens
** Only used by AABSOM for loan prnts
KFS Grant-in-Aid Tab

Information for Financial Aid

1. Enter a 8-Digit UH ID Number (found on UH ID card):

2. Enter Semester/Term for Fellowship/Stipend: (Example: SPRING/20XX, SUMMER/20XX, or FALL/20XX):

Type of Payment

1. Qualified Educational Expenses (Includes tuition, fees, books, supplies, etc.):

2. Non-qualified Educational Expenses (Includes room, board, travel costs, etc.):

3. Services Performed:

4. Expenses under Accountable Plan (Employment related):

Revised Object Codes for KFS

Revised Object Codes
Effective 7/1/2015

<table>
<thead>
<tr>
<th>Object Code #</th>
<th>Object Code Name</th>
<th>Definition</th>
</tr>
</thead>
</table>
| 6500          | G-IN-AID, SSHIP/FELSHIP | 1. Payment to a US person for qualified or non-qualified scholarship/fellowship.  
2. Payment to a non-resident alien for qualified scholarship. (See Administrative Procedure AP8.361 for details.) |
| 6503          | G-IN-AID, SSHIP/FELSHIP [REPORTABLE] | Payment to a non-resident alien for non-qualified scholarship/fellowship that is reportable to IRS in Form 1099 or 1042. (See Administrative Procedure AP8.361 for details.) |
| 6510          | G-IN-AID, TUITION | Payment or credit to UI students for scholarship that offsets tuition and fees |
| 6514          | G-IN-AID, TUITION [LOAN REPAYMENT] | Payment or credit to UI students for scholarship that offsets student loans |
| 6540          | G-IN-AID, TRAVEL | Travel related payment to a US person for non-qualified scholarship/fellowship. (See Administrative Procedure AP8.361 for details.) |
| 6543          | G-IN-AID, TRAVEL [REPORTABLE] | Travel related payment to a non-resident alien for non-qualified scholarship/fellowship. (See Administrative Procedure AP8.361 for details.) |
| 7244          | PRIZES/AWARDS [REPORTABLE] | Payments to UI or non-UI employees that is based on a past accomplishment or activity or is received as the result of entering a contest. (See Administrative Procedure AP8.361 for details.) |
Q & A

See Handout
1. If we want to pay for a student to attend a local workshop (registration fee) and payment needs to be made directly to the vendor (not the student), how do we process this? Assume it's non-service related. If a requisition/PO is issued to the vendor, how does the amount get reported to Disbursing for possible inclusion in a Form 1099?

2. Can a department issue a PO for conference registration to a third party for non-qualified expenses for a US citizen? If allowable, what would be the appropriate object code to use (reportable vs non-reportable, travel vs grant-in-aid vs other; 4840, 6540, 7230, 7245) on the PO since it is third party?

3. AP 8.561 defines "stipend" as "a fixed sum of money paid periodically for services or to defray expenses." Will any AP or guidance be issued addressing stipends paid periodically for services?

4. Section III.E.1: If non-qualified scholarship/fellowship payments are not included on the IRS Form 1099-Misc., what type of records should be maintained by the program to answer inquiries from recipients explaining the amount and type of financial assistance provided annually? How long should the records be made available to recipients?

5. Section III.E.3: If a third-party payment method is used and a cash advance is given to a principal investigator (PI) who in turn pays recipients cash, how does a program assist the PI from violating the stipulation written later in section H.1.d.(1) that cash advances by a program are not permitted to nonresident aliens?

6. Section III.H.1.d.(2) Gross Up Method and Tax Withholding: What will happen if a UH program only makes payments to third-party vendors for US citizens or permanent resident aliens to avoid the additional expense of paying mandatory withholding taxes? How would a college fiscal administrator find out if a program is excluding nonresident aliens to avoid this additional cost?

7. The IRS Form 1099-Misc reporting threshold is $600. What is the minimum amount that UH reports on the IRS Form 1099-Misc for payments during a tax year?

8. If a recipient of an IRS Form 1042-S or 1099-Misc has questions, what UH office does the person contact?
9. A college receives funding to support the development, testing and deployment of an application on a mobile device. There is a need to solicit the assistance of students (likely graduate level) for the various phases of the creation of this application. Their involvement would be working under the guidance of the PI to develop the model, program the application, test the app, and deploy the app (work with participants to train them how to use the app), and evaluate the success of the app (gather feedback). The PI would like to pay a stipend of $400 per student for their participation in the development of the app and views this as a valuable training opportunity that complements what they are learning in their degree program, rather the fee for service (or employment). There is no correlation between hours worked and the $400 stipend amount. This would not be a qualified educational expense since this isn't a scholarship, so is it appropriate to call it a Non-Qualified Education Expense when filling out the Grant-in-Aid section in KFS?

10. One of our Federal sponsors provides us with a budget to support some students who are going to a foreign country to improve their language skills in various fields depending on their major (one is an official major and the other program is informal). The money is used to provide financial support while they are studying outside the US. Would this be considered a non-qualified educational expense (payment processed through Kuali) or a qualified educational expense (processed through Banner)?
1. It depends...first we should inquire about the workshop, is the workshop related to student’s studies? Even if it is non-service related, we need to know the reason for attending such workshop. Once we find out if it is school related or not, then we can determine the processing steps. If it determined that it is school related activity, then the department should issue a Purchase Order (PO) to the vendor (Third Party Payment). The department is responsible for maintaining a Third Party Worksheet to keep track of these payments as they are allocated to each student. (See attachment). Since the UH are not reporting these payments on 1099-MISC, the department must advise the students that payments made on their behalf are deemed reportable and taxable on their personal income tax returns for US Citizens, Permanent Residents, and Resident Aliens. For Nonresident Aliens (NRAs), it would be reported on IRS Form 1042-S. The third party spreadsheet must be turned into Disbursing at the time of payment.

2. The answer is Yes. As for the correct selection of the object code, it depends. If it is a Federally sponsored extramural project, the restriction may fall under the 6500 series object codes in order to void indirect cost hits. If using UH appropriated funds, 7230 object code would be appropriate. If the registration fees for the conference are related to a travel, then the 4000 series object codes may be a better fit. As for if the payment is reportable or not, it also depends. Is third party payment for a US Citizen, Permanent Resident, or Resident Alien? Is the payment related for a Nonresident Alien (NRA) or foreigner? Are the individuals employed at full time somewhere? Are they attending the conference related in their field of study or expertise? As you can see there are many variables that one has to look at to make a determination on whether the payment is reportable or not.

3. Actually, the verbiage in AP 8.561 for stipends, states “Stipend is defined as a fixed sum of money paid periodically for services or to defray expenses. A stipend may include, but is not limited to, scholarship, fellowship, honorarium, prize, awards, etc.” Whenever stipends are paid for services, regardless of frequency, it is either an independent contractor payment or employee payment. You should not be using DV Payment Reason Code S for payments related to services. The proper vehicle to use is a Purchase Order with Non-employee Invoice if paying an Independent Contractor.

4. The department business office needs to ensure its personnel have KFS Role 18 in their security profile so that they have access to SEARCH FOR PAYMENTS in the Maintenance Tab of KFS. Maintenance of financial records is per State regulations, which is 7 fiscal years.

5. This is a difficult question to answer. The departmental business office needs to brief the Principal investigator (PI) prior to starting the survey on controls he/she needs to incorporate into the survey process. For example, asking the individual prior to start of the survey if he/she
is a US citizen. As he/she solicits individuals to participate in the survey he/she should have them fill out the prescribed “logbook” or spreadsheet before paying the recipients cash. Internal control measures should be put in place to prevent such practice of payments to nonresident aliens for these situations. Nonresident aliens could be paid but not in cash. There would be a time delay but a check payment is possible. The requirement for WH-1 with supporting documentation needs to be accomplished first to establish the vendor in KFS. An NRA assessment is necessary to determine taxation on the payment. It is not insurmountable and could be accomplished.

6. AP 8.561 is not written to discourage payments to NRA. The gross up method is written to provide an option for payments to NRA. It is the program’s choice to pay NRA within the IRS tax statutes. As a payor, UH needs to abide by the IRS tax statutes.

7. Total of $600 or more from all departments to the same individual from January 1 to December 31 of the same year. Royalty threshold for reporting is $10.00. Nonresident Alien (NRA) reporting on IRS Form 1042-S is anything greater than $1.00

8. The person need to inquire with UH departmental business office first, as that office has access to the transactions in KFS. If further inquiries are needed, then the departmental business office should contact the Disbursing Office.

If you have any questions regarding the IRS Form 1098-T, please visit the following website: http://www.fmo.hawaii.edu/student_accounts/#tab5_4

If you are unable to locate the answers to your questions, please call Sandi Wong at the Bursar’s office at 956-0817.

9. First, one has to analyze what this payment is being made for. Based on the description of scope of services or work to be performed by the student, this connotes employment or services to be performed by an independent contractor. Second, the stipend payment of $400 must not have any “strings attached” in order for it to be considered as a nonservice fellowship/scholarship. If there are no conditions tied to this payment, then it could be considered as a non-qualified educational expense.

10. It depends on what is being paid to support the students. If we are paying the transportation, hotel costs, etc. via third party payments, this could be considered a program expense dependent if this is an annual recurring event and other factors involved. If you are paying the students directly and they make their own travel arrangements, then it could be considered a non-qualified educational expense. If department is paying tuition costs to another foreign university directly for the UH students to attend, then that too could be a program cost. If we give money directly to the students to pay the foreign university for their tuition, then it would a qualified educational expense.

11. Additional resources: To process a scholarship fellowship payment in Banner, please use the following form, and submit it to the University of Hawaii Cashier’s office:
University of Hawaii Cashier’s Office Scholarship/Fellowship/Stipend payment request: