

THE UNIVERSITY OF MICHIGAN
PAYROLL OFFICE
G395 Wolverine Tower - Low Rise/1279

SUBJECT: Reporting of Scholarships and Fellowships to IRS

BACKGROUND:

- All scholarship and fellowship payments made to non-resident aliens are reported to IRS via the Form 1042S regardless of the amount paid and whether the amounts are taxable.
Tuition amounts that are directly applied to the Student Account for a non-resident alien will no longer be reported on the Form 1042S to IRS effective for 2001.
- Scholarships and fellowships paid to U.S. citizens and resident aliens are not reported to IRS. U.S. citizens and resident aliens who receive fellowships can request a letter from the Payroll Office as documentation for filing their income tax return.

GENERAL INFORMATION:

By way of background, some definitions and taxation information are below.

- A scholarship is generally an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies leading to a degree. The student may be either an undergraduate or graduate.
- Grants, such as Pell grants, Supplemental Educational Opportunity Grants and grants to states for state incentives, are scholarships and are tax-free to the extent they are used for qualifying tuition and course-related expenses during the grant period but that does not lead to a degree.
- A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

Taxation:

U.S. Citizen/Resident Alien

- A qualified scholarship or fellowship is tax-free only if the individual is a candidate for a degree at an educational institution and the proceeds from the

scholarship/fellowship are used for payment of tuition, fees, books, supplies and equipment.

- This means that even though the University will not be reporting the monies to IRS, the recipient may have a tax liability and should report the monies on his/her income tax return. The recipient should file estimated quarterly tax payments in order to avoid under withholding penalties.

Non-resident Alien

- In general, scholarships and fellowships paid to non-resident aliens (who temporarily reside in the U.S. and hold F-1, J-1, M-1 or Q-1 visas) are subject to 14% withholding on amounts above tuition, fees, books, supplies and equipment unless the amounts are exempt from tax under the Internal Revenue Code or a tax treaty. (Please refer to the payroll home page <http://www.finops.umich.edu/payroll> for additional information on taxation of payments made to non-resident aliens and tax treaties.)

NOTE: If a student's visa status has changed since first arriving at the University, please have them contact the Registrar's Office to insure proper taxation and reporting. Also, an updated Alien Certificate found at this link http://finance.umich.edu/system/files/Alien_Certificate_0.pdf should be submitted to the payroll office.

Attached is a chart that defines how tax withholding and reporting is determined.

If you have questions, please call the University Payroll Office at 734-763-6106, 734-764-1485 or 734-936-3512.

SCHOLARSHIPS AND FELLOWSHIPS
U of M's Tax Reporting and Withholding Responsibilities
and
Tax Liability for Recipients
Effective 1/1/01

	U.S. Citizen and Resident Aliens		Non-resident Aliens			
	Degree Candidate	Non-degree Candidate	Degree Candidate		Non-Degree Candidate	
			Tax Treaty Available and Form W-8BEN on File	No Tax Treaty or No Form W-8BEN on File	Tax Treaty Available and Form W-8BEN on File	No Tax Treaty or No Form W-8BEN on File
Funds directly applied to Student Account for tuition/fees	<ul style="list-style-type: none"> • Not reported to IRS by UM. • Not taxable to student if required of all students in the course. 	• Not applicable.	• Not reported to IRS by UM.	• Not reported to IRS by UM.	• Not applicable.	• Not applicable.
Funds paid to student and used for books, supplies, equipment	<ul style="list-style-type: none"> • Not reported to IRS by UM. • Not taxable to student if required of all students in the course. 	• Not applicable.	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • Not taxable to student under tax treaty. 	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • 14% federal tax is withheld. • Not taxable to student if required of all students in the course. 	• Not applicable.	• Not applicable.
Funds directly applied to Student Account for room and board	<ul style="list-style-type: none"> • Not reported to IRS by UM. • Taxable to student. 	• Not applicable.	• Not applicable.	• Not applicable.	• Not applicable.	• Not applicable.
Funds paid to student and used for expenses other than tuition, fees, books, supplies and equipment	<ul style="list-style-type: none"> • Not reported to IRS by UM. • Taxable to student. 	• Not applicable.	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • Not taxable to student under tax treaty. 	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • 14% federal tax is withheld. • Taxable to student. 	• Not applicable.	• Not applicable.
Funds paid to an individual for any and all expenses	• Not applicable.	<ul style="list-style-type: none"> • Not reported to IRS by UM. • Taxable to individual. 	• Not applicable.	• Not applicable.	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • Not taxable to individual under tax treaty. 	<ul style="list-style-type: none"> • Reported on Form 1042S to IRS by UM. • 14% federal tax is withheld. • Taxable to individual.