Overview
The Internal Revenue Service (IRS) and Internal Revenue Code (IRC) govern the manner in which scholarships and fellowship grants are taxed to the students and Pacific’s reporting responsibilities with respect to those scholarships and fellowship grants.

Students may receive financial support from Pacific for educational or living expenses that may designated as scholarships, fellowship grants, prizes, awards, or stipends. Financial support can come in the form of money or waivers/credits on the student account.

Is a scholarship taxable to the student?
- The general rule is that any money received is subject to federal taxation, unless the IRS provides an exception.
- Generally, a scholarship or fellowship grant is tax-free to the recipient only if:
  - The recipient is a student pursuing a degree at an educational institution; and
  - The scholarship or fellowship grant is used to pay qualified tuition and related expenses.

How does the IRS define a scholarship or fellowship grant?
- A scholarship or fellowship grant is any amount paid or allowed to, or on behalf of, an individual to enable him/her to pursue studies or research.
- Not all terms (i.e., stipend, allowance, prize, award) used to describe a payment to a student are defined in the IRC. To be considered a scholarship or fellowship grant, any amount received by
the student need not be formally designated as a scholarship or fellowship grant. The IRS is concerned with the purpose of the payment.

What are qualified educational expenses?

- Qualified tuition and related expenses are: (1) tuition required for enrollment at Pacific; and (2) fees, books, supplies, and equipment required of all students in a course of instruction.
- Qualified tuition and related expenses may include study abroad programs.
- Non-qualified expenses consist of any amount received by, or paid on behalf of, a student for incidental expenses such as room and board, travel, research, and expenses for equipment and other items not required for either enrollment or attendance in a course of instruction.

Are stipends taxable to the student?

- “Stipends,” though not defined by the IRC, are commonly used to describe compensation for services, or an amount provided to a student so s/he does not have to work and enables him/her to pursue research (or studies). Stipends not treated as a scholarship or fellowship grant may be subject to employment tax and reportable on IRS form W-2.
- For stipends treated as a scholarship stipend, if it should be later determined by a taxing authority that the stipend was compensation, the originating Pacific department may be financially responsible for any tax assessments.

How are scholarships reported to the IRS?

- Scholarships or grants used for qualified educational expenses are typically reported on IRS Form 1098-T.
- Scholarships or grants used for non-qualified educational expenses may be taxable to the student, but Pacific is not required to report those amounts to the IRS. Unless, the payment represents a stipend as mentioned above or, the recipient is not a U.S. citizen. If the recipient is not a U.S. citizen, Pacific may be required to withhold tax and report the payment on IRS Form 1042-S.
- Payments to students that are for Pacific business expenses will not result in any tax consequences.

Are prizes and awards taxable to the student?

- Generally, a prize or award won by a student for academic excellence, achievement or special recognition (i.e., writing contest, competition, graduating senior award) is not treated as a scholarship or fellowship grant. Therefore, the entire amount of the prize is taxable and reportable on IRS Form 1099-Misc. Prizes and awards related to employment services (i.e., “Student Employee of the Year”) are taxable as wages and reportable on IRS Form W-2. If the recipient is not a U.S. citizen, prizes and awards are reported on IRS Form 1042-S.
- Exception: If the recipient is not required to render future services as a condition of receiving the award, and it is clearly stated that the award is required to be used for educational expenses, then the award can be treated as a scholarship.
Is the financial support a student receives from the Office of Financial Aid treated differently for tax purposes from the financial support received from other departments?

- The above guidance applies equally to the financial support a student receives from the Office of Financial Aid or directly from a particular department.
- There appears to be a general presumption that the financial support a student receives from the Office of Financial Aid, or that appears on a student’s account, is used for qualified educational expenses. And thus, is not taxable to the student. However, this is not always the case. To determine proper tax treatment of the financial support a student receives, the student should consult with an outside tax advisor. A student may also find general guidance in IRS Publication 970 – Tax Benefits for Education (http://www.irs.gov/pub/irs-pdf/p970.pdf).

**Department Responsibilities**
(Note: this only applies to monies not administered by the Office of Financial Aid)

**How does the Department determine if a scholarship is taxable?**
- Use the attached flow chart (Attachment A) to assist in determining taxability.
- For further assistance, contact Tax Compliance at 209-946-2608.

**What does the Department do if the scholarship is considered taxable?**
- The student’s award letter must contain the following tax language:
  - “Some or your entire award may be subject to taxation in accordance with federal, state, and other regulations. For general guidance, you may refer to federal regulations included in IRS Publication 970, available on the IRS “Forms and Publications” website at the following link: http://www.irs.gov/pub/irs-pdf/p970.pdf. Keep in mind state and foreign individual income tax regulations may vary from federal guidelines. For example, if you are not a U.S. resident, Pacific may be required to withhold taxes from your award. Please consult with an outside tax advisor if you are uncertain of the implications of this award on your personal tax situation. Pacific is not responsible for any taxes that may arise from this award, and does not provide tax advice.”
- The award letter must be attached to the Authorization for Payment form.
- If the student is not a U.S. citizen, it must be indicated on the Authorization for Payment form as payments to non-U.S. citizens will require further review by Tax Compliance and Payroll.

**What does the Department do if the scholarship is considered a business expense?**
- The Authorization for Payment form must indicate that the scholarship is considered a business expense so the paying department will not be asked to include the above tax language in the award letter.
- For expense reimbursements, attach the original receipts to the Authorization for Payment form.

**What additional information must the Authorization for Payment form contain?**
- When completing the Authorization for Payment form, one of the account codes from the 7900 series must be used, regardless if the scholarship is treated as a business expense.
Student Payment Tax Treatment Determination Flowchart (Attachment A)

This Determination Flowchart is not all inclusive. Determination is facts and circumstances specific. Each instance must be determined individually.

For further assistance, please contact Tax Compliance at 209-946-2608.

--Students who are not currently enrolled at University of the Pacific.
--Prizes/Awards won by a student for academic excellence, achievement, special recognition, or from competitions.
(see overview for examples.)

1. Does Pacific make payment to student?
   - Yes
   - No

2. Is the student currently a student employee of the paying dept.?
   - Yes
   - No

   - Does the student receive a stipend or compensation for services – past, present, or future?
     - Yes
     - No

   - Does Pacific exercise control of the activity performed?
     - Yes
     - No

3. Does Pacific determine the activity to be performed based on its needs? Or, would Pacific pay another individual to perform these same functions?
   - Yes
   - No

4. Is Pacific the primary beneficiary from the activity? (Benefit is more than de minimis or is significant)
   - Yes
   - No

5. Payment for services is treated as employee compensation. Process payments for services through Payroll. If questions, contact Payroll at 209-946-2158.

6. Does the student employee request an expense reimbursement?
   - Yes
   - No

   - Does the expense reimbursement primarily for the benefit of the student’s education as opposed to Pacific’s business?
     - Yes
     - No

   - Treat as a Business Expense. Process through Accounts Payable. If questions, contact A/P at 209-946-2156. Note: Payments to a non-U.S. resident may have to be processed through Payroll.

   - Treat as a taxable Scholarship/Grant. Process through Accounts Payable. If questions, contact A/P at 209-946-2156. Note: Payments to a non-U.S. resident may have to be processed through Payroll.
Notes for Student Payment Tax Treatment Determination Flowchart

The Tax Treatment Determination Flowchart is not all inclusive. Determination is facts and circumstances specific. Each instance must be determined individually. For further assistance, please contact Tax Compliance at 209-946-2608.

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

**NOTE 1: Is there a service requirement?**  
**Yes if:**
- Substantial conditions are attached to the payment, which exceed the incidental duties as a student; or,
- Student receives payment (i.e., a stipend) that enables him/her to pursue research (or studies) primarily for the benefit of Pacific. See Notes 3 and 4 for additional information.

**NOTE 2: Does Pacific control the student’s activity?**  
**Yes if:**
- Pacific tells the student where, when (e.g., planned time schedules), and how to work;
- Pacific has the right to exercise control or supervision over the sequence of work performed; or,
- The student is required to submit more than just progress reports.

**NOTE 3: Is Pacific the primary beneficiary?**  
**Yes if:**
- Pacific’s primary purpose and original intent is for Pacific to obtain useful results from the project;
- Results or research will be used by Pacific;
- Pacific determines activities;
- Services are performed to fulfill Pacific’s obligations to an outside funding entity;
- Pacific would otherwise need to hire an employee or contractor to complete the same results;
- The student is selected based on his/her experience; or,
- The amount of the payment is based on the amount of compensation to employees performing similar activities.

**NOTE 4: Is Pacific the primary beneficiary?**  
**No if:**
- Activity does not directly support a faculty member’s project or research program;
- Activity is not related to presenting or actively participating at a conference or scholastic competition on behalf of Pacific; or,
- Activity is not official Pacific business (i.e., performed primarily for Pacific purposes, such as Pacific athletics or Pacific band performances)
NOTE 5: Is the expense reimbursement related to 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 impacts student’s grade; or,
- Student merely listens and learns to further his/her education.

NOTE 6: Is the expense reimbursement related to education?

No if:
- Activity directly supports a faculty member’s project or research program;
- Activity is related to presenting or actively participating at a conference or scholastic competition on behalf of the Pacific; or,
- Activity is official Pacific business (i.e., performed primarily for Pacific purposes, such as Pacific athletics or Pacific band performances).