




MEMORANDUM

TO: Office of Graduate Education
FROM:  Melissa D. Henard, Tax Manager
SUBJECT: Fellowships
DATE: February 23, 2012

A fellowship is any amount paid or allowed to, or for the benefit of, an individual to aid such individual in the pursuit of study or research. A fellowship may take the form of:

- Payment(s) to the recipient such as stipend payments;
- Reimbursement or payment of expenses, such as travel expenses, to or on behalf of an individual; or
- A credit against an existing term bill or a reduction in the amount owed by the recipient to an educational organization in connection with the pursuit of study or research.

INCOME TAX

Fellowship payments are taxable unless they are excluded from taxable income under Internal Revenue Code ("IRC") §117(a).

Fellowship amounts are **nontaxable** where:

- The recipient is an individual who is a candidate for a degree at an educational organization; **and**
- The fellowship amount is used for "qualified tuition and related expenses" as defined in IRC §25A(f).

Fellowship amounts are **taxable** where:

- Amounts are used for room, board, travel, clerical help, equipment, incidental living expenses, and other expenses not required for enrollment or attendance at West Virginia University;
- Amounts are given to non-degree candidates, such as post-doctorates; or
- The fellowship grant is conditioned upon either past, present, or future services by the recipient primarily for the benefit of West Virginia University.

FICA TAX

Fellowship payments are subject to FICA (Social Security and Medicare) **only** if they are deemed to be "wages" for employment tax purposes. Whether fellowships are wages is an inherently factual determination, requiring consideration of all relevant facts and circumstances of the program.

TAX WITHHOLDING

If you are a U.S. citizen or resident alien for U.S. tax purposes, West Virginia University will not withhold from your non-employee fellowship payments. You should consult a personal tax advisor to determine whether or not you should be making estimated tax payments with respect to your fellowship income

TAX REPORTING

West Virginia University is not required to report fellowship amounts to U.S. citizens or individuals who are resident aliens for tax purposes on a Form 1099 or other formal tax document. When the fellowship payment is made to an individual classified as an employee, West Virginia University will report the fellowship payment on Form W-2, *Wage and Tax Statement*. If the fellowship payment is applied against an individual's qualified tuition and related expenses, West Virginia University will report the fellowship payment on Form 1098-T, *Tuition Statement*.

NONRESIDENT ALIENS

If you are a nonresident alien for tax purposes, different tax and reporting rules may apply to you. Please contact Tax Services for additional information regarding these rules.

In determining the taxability of a fellowship, WVU Tax Services ***strongly*** recommends individuals consult a personal tax advisor. However, individuals may find the following Internal Revenue Service publications to be helpful:

- If you are a U.S. citizen or resident alien for tax purposes, who received fellowship amounts for studying, teaching, or researching in the U.S., please refer to IRS Publication 970, *Tax Benefits for Education*
(<http://www.irs.gov/publications/p970/index.html>)
- If you are a nonresident alien for U.S. tax purposes, who received a fellowship for studying, teaching, or researching in the U.S. then see IRS Publication 519, *U.S. Tax Guide for Aliens*
(<http://www.irs.gov/publications/p519/index.html>)
- Instructions for Form 1098-T
(<http://www.irs.gov/instructions/i1098et/ar02.html>)
- The taxability of fellowships and other awards/grants is governed by IRC §117 and Treasury Regulations §1.117-2 and §1.117-3.