LOUISIANA STATE UNIVERSITY
TAX GUIDE FOR
FELLOWSHP AWARD RECIPIENTS

This guide is intended to illustrate tax treatment of fellowship awards given to LSU students who are U.S. citizens or resident aliens. Special rules apply to fellowship recipients who are nonresident aliens. Fellowship amounts for nonresident aliens are generally subject to tax withholding at a flat 14% and will be reported on IRS Form 1042S. Taxable income for nonresident aliens is reported on IRS Form 1040NR. For more information on tax reporting for nonresident aliens, refer to IRS Publication 519, U.S. Tax Guide for Aliens.

This guide is intended to provide information and is NOT intended to provide tax advice. This is not a comprehensive discussion of the items covered but, rather, a presentation of what will hopefully be helpful information regarding subject matter affecting the majority of students receiving fellowship awards. Complex situations may involve more than is included in this guide and may require tax advice from some other source.

Additional information is available in the following free IRS publications:

Publication 505—Tax Withholding and Estimated Tax
Publication 596—Earned Income Credit
Publication 910—Guide To Free Tax Service
Publication 970—Tax Benefits for Education

IRS publications and tax forms can be obtained from the IRS web site at: **www.irs.gov.** Alternatively, publications or tax forms can be ordered by calling the toll free IRS number 1-800-TAX-FORM (1-800-829-3676) or by completing the IRS Order Form found in the Form 1040 and Form 1040A instruction booklets.

Definition: A fellowship, as defined in IRS Publication 970, "is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research."

Award Amounts: Fellowship awards are generally taxable income. Even though an award is income to the student it is not a salary or a wage because no services are required of the student in order to receive the award. The award represents support of the student as opposed to compensation for services.

Occasionally, a fellowship award will require the recipient to perform services in order to receive the award. For example, the Cain Education Fellowship requires the recipient to teach at least two years in a Louisiana school after completion of the program. This requirement changes the fellowship from an award to compensation for services. In cases where past, present or future services are required, LSU will appoint the fellow as an employee and report all earnings on IRS Form W-2.

Tuition Awards: A tuition award that is offered in addition to a fellowship award is, in and of itself, not income. However, the tuition award must be aggregated with the cash stipend when determining taxable income. Both the cash stipend and the tuition award are considered scholarships by IRS definition, therefore, a fellow has received a taxable scholarship to the extent the "total scholarship" amount exceeds tuition and other qualified expenses.

Tax Reporting Of Fellowship Awards by LSU: Currently there is no IRS reporting requirement for fellowship awards therefore, no information document will be issued. Fellowship recipients can refer to their Billing Statement available through PAWS for fellowship amounts to be included on their tax return.

Tax Withholding On Fellowship Awards: Even though the award is considered taxable income the tax withholding regulations do not allow for the withholding of federal or state income taxes from the fellowship payment. (The IRS does not provide a form on which the employer could report the withheld taxes to either the student or the taxing authorities.) Since tax cannot be withheld on fellowship payments, students receiving fellowship payments may wish to make (Quarterly) Estimated Tax Payments to cover their tax liability. For more information on Estimated Tax Payments refer to IRS Publication 505.

Tax Reporting of Fellowship Awards by the Fellow: It is the responsibility of each fellowship award recipient to determine the amount of the award received that is required to be reported as income on their tax return.

A fellowship is tax free only if:

1) The recipient is a candidate for a degree at an educational institution, and
2) The award is used to pay for qualified education expenses.

Qualified education expenses are:

- Tuition and fees required to enroll in, or attend an educational institution, or
- Fees, books, supplies, and equipment that are required for courses at the

educational institution. These items must be required by all students in the course of instruction.

In addition to considering qualified expenses and the "total scholarship" amount, the terms of the fellowship grant will also be a factor in determining taxable income. The fellowship award will be available for amounts incurred for tuition and course related expenses if the terms do not designate it be used for non-qualified purposes, such as room and board, and if the terms to not specify that the funds cannot be used for tuition or course related expenses.

In determining taxable income the following table and worksheet reproduced from IRS Publication 970 can serve as a guide:

Table 1-1 **Taxability of Scholarship and Fellowship Payments[1]**
Do not rely on this table alone. Refer to the text for complete details.

IF you use the payment for….	**AND you are…….**		**THEN your payment is….**	
	A degree candidate	**Not a degree candidate**	**Tax free[2]**	**Taxable**
Tuition	**X**		**X**	
		X		**X**
Fees	**X**		**X[3]**	
		X		**X**
Books	**X**		**X[3]**	
		X		**X**
Supplies	**X**		**X[3]**	
		X		**X**
Equipment	**X**		**X[3]**	
		X		**X**
Room	**X**			**X**
		X		**X**
Board	**X**			**X**
		X		**X**
Travel	**X**			**X**
		X		**X**

[1]Does not include payments received for past, present, or future services.
[2]Payments used for any expenses indicated in this column are tax free only if the terms of the scholarship or fellowship do not prohibit the expense.
[3]If required of all students in the course.

Worksheet 1-1. **Taxable Scholarship and Fellowship Income**

1. Enter your scholarship or fellowship income for 2006…… 1._____
   - If you are a degree candidate at an eligible educational institution, go to line 2
   - If you are **not** a degree candidate at an eligible educational institution, **stop here**. The entire amount is **taxable**. For information on how to report this amount on your tax return, see *Reporting Scholarships and Fellowships*.

2. Enter the amount from line 1 that was for teaching, research, or any other services. (Do not include amounts received for these items under the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.)……..... 2._____

3. Subtract line 2 from line 1…… 3._____

4. Enter the amount from line 3 that your scholarship or fellowship **required** you to use for other than qualified educational expenses……. 4._____

5. Subtract line 4 from 3…….. 5._____

6. Enter the amount from line 5 that was used for qualified education expenses required for study at an eligible educational institution. This amount is the **tax-free part** of your scholarship or fellowship income*……. 6._____

7. Subtract line 6 form line 5…… 7._____

8. **Taxable part.** Add lines 2, 4, and 7. See *Reporting Scholarships and Fellowships* for how to report this amount on your tax return……. 8._____

*If you qualify for other education benefits (see chapters 2 through 12), you may have to reduce the amount of education expenses qualifying for a specific benefit by the tax-free amount on this line.

HOW TO REPORT SCHOLARSHIP AND FELLOWSHIP INCOME

If the fellow's only income is a completely tax-free scholarship or fellowship, the fellow does not have to file a tax return and no reporting is necessary. If all or part of the scholarship or fellowship is taxable and the fellow is required to file a tax return, report the taxable amount as explained. The fellow must report the taxable amount whether or not a Form W-2 was received.

Form 1040EZ: Report the taxable amount on line 1. If the taxable amount was not reported on Form W-2, print **"SCH"** and the amount to the left of Line #1.

Form 1040 or 1040A: Report the taxable amount on line #7. If the taxable amount was not reported on Form W-2, print **"SCH"** and the amount on the dotted line next to line 7 on Form 1040 or in the space to the left of line 7 on Form 1040A.

Self-Employment Tax Note: Occasionally, fellows will receive a notice from the IRS indicating the fellow is required to pay what is referred to as the self-employment tax. Although fellowship awards are subject to federal income tax they are NOT subject to the self-employment tax. Self-employment tax is what self-employed individuals pay to the federal government in place of the social security and Medicare taxes that employees pay through payroll tax withholding on salaries and wages. The self-employment tax is only imposed on income that requires services to be rendered. In as much as the fellowship award does NOT require services of the student, the fellowship award should NOT be subjected to this tax even if the IRS issues a notice to the student requesting such a tax payment. In most cases the fellow did not properly identify the stipend as a fellowship **("SCH")** when reporting it on the "Salary/Wages" line on the tax return and, thus, the IRS assumes the income to be salaries subject to the self-employment tax.