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| System-wide Policy: | |
| FI0535 - Student Payments (Non-Employment Related) | |
| Version: 2 | Effective Date: 09/14/2018 |

FI0535 – Student Payments (Non-Employment Related)

Topics:

| | |
|--------------------------------------|---|
| Definitions | Processing Student Payments |
| Overview | Forms |
| Examples of Payments | Contact |

Objective:

To outline the policy for payments to students when the payments are for **non-employment purposes**.

To comply with US Department of Education regulations. Payments such as awards, prizes and gifts to enrolled students in recognition of academic pursuits or achievements must be reported to the Office of Financial Aid when paid for non-employment purposes.

To ensure that student payments are made in accordance with Internal Revenue Service tax rules and regulations.

Policy:

Definitions

1. A **student** is a person who is studying at a school or college. The definition of a student, for purposes of this policy, is not limited to a student of the University of Tennessee. Occasionally, the University pays students at other schools, including high schools and universities or colleges. A university employee should follow the same procedures as detailed in this policy and accompanying flow chart for payments made to any student.
2. **Academic pursuit** is the process of engaging in scholarly or creative educational activities, especially at institutions of higher learning, through study, practice, training

| | |
|---|-----------------------------------|
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or research. Any form of award, recognition, reimbursement or other transaction for the purpose of a student's education or achievement is a payment in support of academic pursuit.

3. **Compensation** is any form of payment to a student in recognition of a student's employment service for the University. Payments for services must be processed through the Payroll Office.
4. **Fellowship** is a prestigious award generally paid for the benefit of an individual (usually a graduate student at an educational institution) to aid in the pursuit of study or research. To qualify as a fellowship, the payment must be a "no strings attached" educational grant with no requirement on the recipient's part to perform substantial services. If the University, however, will receive more than incidental benefit (i.e. the recipient must work in order to receive the fellowship), the payments are compensation for services performed that are subject to applicable employment taxes and will be reported on Form W-2 at the end of the calendar year.
5. **Gift card or gift certificate is a** stored value card or similar instrument issued instead of a check **to a student.**
6. **Grant** is an award that does not have to be repaid by a student.
7. **Loan** is an award that must be repaid by the student.
8. **Merit** is an award based on academic performance criteria or other performance criteria.
9. **Need** is an award based on the students' demonstrated financial need. Title IV defines need as Cost of Attendance less the Expected Family Contribution.
10. **Prize** is any form of award or payment to a student who has entered and won a judged competition that is open to the University community or general public.
11. **Scholarship** is an amount paid for the benefit of a student (both undergraduate and graduate students) at an educational institution to aid in the pursuit of studies. Recipients must not be required to perform past, present or future services for the grantor or the University in charge of administering the award. Payments or winnings won in a contest are considered scholarships if any of the following conditions apply: (a) recipient is required to use the disbursement for educational purposes; (b) recipient has to be a student to win the prize; or (c) the contest is related to the student's university courses or degree completion.

| | |
|---|-----------------------------------|
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12. A **Stipend**, generally, is used as a virtual catch-all category for a variety of payments but often takes the form of a subsistence allowance given to students to help defray living expenses during the educational or training experience. Departments must assess the purpose of the payment to determine how it will be treated (i.e. for academic pursuit of the individual or compensation for services rendered).

Overview

13. Payments to students, who are receiving other forms of financial aid for **any purpose**, are a form of financial assistance and may require one or both of the following actions to be taken:

- a. an adjustment to the financial aid award that the student has already received in the current semester or may receive in a subsequent semester, and/or
- b. an adjustment to the student's overall cost of attendance budget.

14. The Office of Financial Aid (OFA) at each campus has the responsibility to determine whether adjustments are necessary. Departments/units have the responsibility to inform OFA about the student's financial assistance and to inform OFA of the academic term for which the payment is effective.

15. Payments to students **with** offsetting educational expenses:

If the payment is for an educational expense the student will incur or has incurred and the student's expense will equal or exceed the amount of the payment, OFA will offset the payment with a Cost of Attendance (COA) budget adjustment when proper documentation is provided to OFA. If the payment amount is insufficient to cover the full cost of attendance, the student's financial aid unmet need will be increased and the student may become eligible for additional financial aid. Examples of this type of payment are set allocations for conference attendance, which may not completely cover the total costs of the conference attendance.

16. Payments to students **without** offsetting educational expenses:

If there are no offsetting educational expenses for the student's payment, the payment is counted toward the student's overall financial aid for the academic year. If the

| | |
|---|-----------------------------------|
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payment/reimbursement amount causes the student's total aid to exceed the Cost of Attendance (COA) budget, other financial aid sources may be reduced. Examples of this type of payment are cash payments or a gift card as an academic award.

Examples of Payments

16. Examples of payments to students that must be reported to OFA are:

- a. **Conference registration fees and travel** when the payment or expense is not incurred on behalf of the University*, but rather incurred for furtherance of the student's own education experience such as: (i) Student merely listens and learns to further his/her education or (ii) Student receives travel award for conducting research associated with his/her degree.

*If a University business purpose exists, the expenses can be reimbursed through Accounts Payable as travel reimbursements. Examples of University business purpose would be if the travel expenses meet any of the following criteria:

- Required by a contract;
- Part of an established educational program in which the costs are included in the educational program fee charged;
- Incurred while participating in research or group educational activities at the University's request;
- Incurred while participating in approved student events or recruiting activities for the University;
- Incurred while representing the University at a conference or meeting (including paper presentation).

These payments would **not** be reported to OFA.

- b. **Reimbursement of supplies** or other items purchased by the University to complete an educational assignment. Examples include, but are not limited to,

| | |
|---|-----------------------------------|
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editing, transcription, translation, binding, purchase of computer hardware and/or software, etc.

c. **Awards and prizes** include, but are not limited to:

- Third party payment or scholarship to offset educational costs
- Funds awarded due to special or unusual circumstances (i.e. personal emergency)
- Student of the month or other recognition awards (achievement, highest GPA, etc.)
- Scholastic competition (best design, best paper, etc.)

To further define a "prize", if an enrolled student receives any sort of payment or prize for participating in a contest, survey, or other competition, the payment or prize is considered a scholarship if **any** of the following conditions apply:

- The recipient is required to use the disbursement for education purposes,
- The recipient is eligible to win because he or she is a student or,
- The contest is related to the student's university courses or degree completion.

If student payments qualify as scholarships under any of these conditions, the payments (or prizes) must be reported to OFA. Furthermore, no *de minimis* safe harbor exists to allow the university to award small prizes qualifying as scholarships to students without reporting them to OFA.

If none of the aforementioned conditions apply to payments for participating in a contest, survey, or other competition, the payment or winnings would be considered a prize and not a scholarship. Prizes that meet none of the conditions listed above do not have to be reported to OFA. See #24 for additional information regarding the federal taxation of prizes.

| | |
|---|-----------------------------------|
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Processing Student Payments

17. The University office (OFA, Accounts Payable, or Payroll Office) responsible for processing student payments will determine how the payment will be reported to the applicable federal agencies. The attached Student Payments Flowchart is provided to assist in determining which office should handle the payment.

Payments Processed and/or Reported to Office of Financial Aid

18. Any funding (scholarship, non-service fellowship, grant, award, prize, dissertation expense reimbursements, etc.) made to students enrolled at the University of Tennessee to support their educational pursuits or because of enrollment in postsecondary education and paid during an enrollment period must be counted as a resource for financial aid and be reported to the campus OFA in order to comply with Title IV regulations promulgated by the Department of Education. Additionally, the University is required to report these payments on Form 1098-T to the IRS. This reporting is a function of the campus Bursar/Cashier's Office and the payment must, therefore, be processed by and/or reported to the campus OFA. [The Scholarship/Award Authorization Form](#) can be used for this purpose or the campus designated form. Any outstanding balance on the student's account will be deducted from the payment and the balance, if any, will be refunded to the student. If the account is at a zero balance, the student will receive the full amount of the scholarship/fellowship/grant/award as a refund.

Payments Processed by System Accounts Payable

19. Awards to non-students (e.g. valedictorian awards) given to students who have since graduated should be processed via Accounts Payable as the student is no longer enrolled. Similar payments made by an academic unit or other department to **non-enrolled** students (not currently enrolled and will not be enrolled in the upcoming term) should be submitted to System Accounts Payable for processing on [Form T-27](#), pursuant to the vendor payment process. Prizes that do not meet the

| | |
|---|-----------------------------------|
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| Version: 2 | Effective Date: 09/14/2018 |

conditions of a scholarship and travel and supply reimbursements for official University business should also be processed via Accounts Payable.

Payments Processed by System Payroll Office

20. If the student is required to perform services for the University (e.g. athletic work-aid, work-study, etc.) to receive the funds, the payment must be treated as compensation for services, subject to applicable payroll taxes and processed via the Payroll Office. The Payroll Office also processes certain stipend-related non-service fellowships. If the recipient is enrolled at the University, the initiating department should also report the fellowship to the campus OFA to be counted as a financial aid resource.
21. Please refer to [Student Payment Workflow](#) and [determination guide](#) for additional information on this topic.

Federal Taxation of Student Payments

22. Generally, those portions of a scholarship or fellowship used to pay qualified expenses such as tuition, fees, books, supplies, or equipment are classified as non-taxable and are not includible in the gross income of the recipient if the recipient is a candidate for a degree. Scholarship and fellowship payments in excess of qualified expenses are fully taxable for income tax purposes. Individuals receiving payments in excess of qualified expenses are responsible for making quarterly estimated federal and state income tax payments, if needed.
23. For students who are US citizens or resident aliens, there are no reporting or tax withholding requirements for scholarships and fellowships issued by the University. The University, however, must capture such payments for Form 1098-T, Tuition Statement, reporting if the recipient is enrolled at the University. Scholarship and fellowship payments made to **non-resident aliens** in excess of required tuition, fees and books are subject to special tax provisions and withholding under the Internal Revenue Code.
24. Non-scholarship prizes (as described in #16C above) are taxable to the recipient, depending on the recipient's employment status with the University. If the recipient

| | |
|---|-----------------------------------|
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is not an employee of the University, the prize is reportable by the University for US income tax purposes only to the extent that it is \$600 or more. If the recipient is an employee of the University, the prize is treated as a payment for services (wages) and is reported on the employee's W-2. If the recipient is a Nonresident Alien (NRA) for US income tax purposes, prizes are subject to special tax provisions and withholding under the Internal Revenue Code.

25. Any portion of a scholarship, fellowship, stipend, or other award that represents payment for teaching, research or other services is compensation subject to applicable employment taxes and reported on Form W-2. This does not apply to non-service fellowships.
26. The University does not provide individual tax advice. Students should contact their personal tax advisors for assistance with specific tax questions.

Forms

- [Scholarship/ Award Authorization Form](#)
- [Request for Special Payment – T-27 Form](#)

Other

- [Student Payment Workflow](#)
- [Student Payment Determination Guide](#)

For More Information

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Related Policies: [FI0313 - Gift Cards and Gift Certificates](#)