

Guide for the Treatment of Student Payments

OVERVIEW:

This information serves as a guide to academic departments and other units who make payments to enrolled students and/or non-enrolled students. These payments may be scholarships, fellowships, stipends, wages and other awards. Taxation of these amounts can vary greatly based on the provisions of the grant, the use of the proceeds, the status of the recipient, and whether the recipient is required to perform services in return for the payment or award. It is very important that the University complies with the taxation rules of the Internal Revenue Service and the financial aid rules of the Department of Education when making payments to students.

COMPENSATION versus SCHOLARSHIP:

Federal Courts have consistently held that "scholarships" and "fellowships" are relatively disinterested, "no-strings attached" educational grants, with no requirement of any substantial services from the recipients. Scholarships/Fellowships are any amount paid or allowed to, or on behalf of, an individual to enable him/her to pursue studies or research that:

- (1) Primarily furthers the student's education and training and that is provided by the University for such purpose and that does not represent compensation or payment for services. Periodic progress reports or incidental benefits to the University from research or study results do not constitute payment for services. Such amounts are treated as scholarships (or fellowships), which are not subject to tax withholdings, but are reported as scholarships on IRS Form 1098-T.

OR

- (2) Primarily benefits the University is considered to be for services performed and deemed taxable compensation (or depending upon the circumstances, treated as a **University business expense reimbursement**). Compensation for services is treated as taxable wages, which are subject to the appropriate tax withholding and are reported on IRS Form W-2. In general, University business expense reimbursements are not subject to tax withholdings and are not reported as taxable income.

Identification:

Answering some key questions will help to identify whether the payment is wages or a scholarship.

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

NOTE 1: Is there a service requirement?

Yes if:

- Substantial conditions/duties are attached to the payment, which exceed the incidental duties as a student.
- Student receives payment that enables him/her to pursue research (or studies) primarily for the benefit of the University. See Question 2 for additional information.

NOTE 2: Is the University the primary beneficiary?

Yes if:

- The University's primary purpose and original intent is for the University to obtain useful results from the project.
- Results or research will be used by University.
- University determines activities or supervises the student.

- Services are performed to fulfill University's obligations to outside funding entity.
- University would otherwise need to hire an employee or contractor to complete the same results.
- Student is selected based on his/her experience.
- Amount of payment is based on amount of compensation to employees performing similar activities.

No if:

- The payment is for an activity or area in which the University is relatively disinterested, no strings are attached, and no substantial service requirements are imposed on the student.
- The project's primary purpose and original intent is to further the student's education or training.
- University obtains no or, at most, only an incidental benefit.
- Tasks are performed to contribute to the development of skills needed in the student's studies.
- Student determines activities to be performed.
- Student is selected to further his/her education or training.

'Yes' answer to Note 1 or 2 – the payment is considered compensation and must be processed by your Campus Payroll Office.

'No' answer to Note 1 and 2 – the payment qualifies as a scholarship and must be reported and processed by your Campus Financial Aid Office provided the student is enrolled at the University of Tennessee. If the student is not enrolled at UT (and will not be enrolled in the subsequent enrollment period), the payment must be processed by the System Accounts Payable Office.

PRIZE versus SCHOLARSHIP:

As noted above, a scholarship/fellowship is funding for the purpose of aiding undergraduate/graduate students' study, training or research. Synonyms include grant, award, stipend, etc. Per IRS, it is an amount paid for the benefit of a student at an educational institution to aid in the pursuit of study or research.

A prize is a payment won in a contest that does not have to be used for educational expenses. Prizes include cash, cash-equivalents (such as gift cards), tangible personal property, and complimentary services. The IRS considers payments or winnings intended for the purpose of aiding a student's study, training, or research as scholarships or fellowships.

Payments from a contest that can only be used when enrolled as a degree candidate at an educational institution is considered a scholarship. For example, a competition is held and prizes for 1st, 2nd, and 3rd places are awarded to students who must use the competition prize for their education. In this instance, the competition "prize" would be considered a scholarship and should be processed through the Campus Office of Financial Aid (OFA).

Payment from a contest in which only students are eligible and the criteria for judging are measures of excellence based on University studies or academic performance is classified as a scholarship. The competition payment in this instance would be considered a scholarship and should be processed through the Campus OFA.

Identification:

Answering some key questions will help to identify whether the payment is a scholarship or prize.

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

NOTE 3: Are the contest winnings a scholarship?

Yes if any of the following conditions apply:

- The recipient is required to use the disbursement for educational purposes.
- The recipient has to be a student to win the prize.
- The contest is related to the student's University courses or degree completion.

No if any of the following conditions **do not** apply:

- Recipient is not required to be a student.
- Recipient is not required to use funding for educational purposes.
- The contest is not related to the student's coursework, University studies, or degree completion.

'Yes' answer to NOTE 3 – the prize is considered a scholarship, must be processed through OFA as a resource for financial aid and reported on Form 1098-T.

The determination of whether payment from a contest that is classified as a scholarship is taxable income to the recipient will have to be made by the recipient. If the payment from a contest is not classified as a scholarship, the prize would be includable as taxable income to the recipient.

'No' answer to NOTE 3 – the payment or winnings would be considered a prize by IRS definition and not a scholarship. A prize would have to be processed in one of two manners to ensure appropriate reporting by the University. If the contest prize is a cash payment, it will need to be processed through Accounts Payable. Please note, documentation on how the prize contest was conducted should be entered on the T-27 Form. Contact the System Accounts Payable Office if you have further questions regarding processing awards through the Accounts Payable process.

If the contest prize consists of a non-cash item, please contact the Systems Accounts Payable Office. Some examples of non-cash item are cash equivalents such as gift cards, tangible personal property, and complimentary services. If the winnings (whether cash or non-cash) total \$600 or more, the IRS requires that a Form 1099-MISC be issued to the recipient.

BUSINESS EXPENSE REIMBURSEMENT versus SCHOLARSHIP:

Payments provided to defray and/or reimburse an enrolled student's travel, research, or other department approved personal expenses, **not expressly related to University business**, must be treated as a scholarship and posted to the student's account. Examples are:

- Payment of funds solicited by the student for research or travel (funding awarded by graduate school, SGA, department matching funds, etc.).
- Payment of expenses for travel or research initiated and conducted by the student (the student's own research project, thesis, dissertation, etc.).
- Payment of funds from a grant specifically for the purpose of enriching the student's education and training (e.g., training grants).

Students may be reimbursed for expenses incurred on behalf of the University when there is a direct connection between the expense and the business purposes of the University. Such reimbursements

are not reportable to the IRS by the University as income to the student, provided the required documentation is submitted. Business related expenses reimbursable to students include:

- Expenses incurred by a student, necessary to further a department member's research project or otherwise to fulfill the University's obligations under a contract or grant.
- Expenses to attend a conference/event at which the student is officially representing the University at the request of a department member.
- Reimbursement for departmental operating supplies and business entertainment.

Identification:

Answering some key questions will help to identify whether the payment is a University business expense reimbursement or scholarship.

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

NOTE 4: Is the expense reimbursement or travel advance 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 or course is required for degree or credit
- Activity impacts student's grade
- Student merely listens and learns to further his/her education

No if:

- Directly supports faculty member's project or research program
- Is related to presenting or actively participating at a conference or scholastic competition on behalf of the University
- Is official University business (i.e., performed primarily for University purposes, such as University athletics or University band performances)

'Yes' answer to NOTE 4 – the reimbursement or travel advance is considered a scholarship, must be processed through OFA as a resource for financial aid and reported on Form 1098-T.

Note: A student must be enrolled when the expenses were or will be incurred; or, must anticipate returning for the subsequent enrollment period. If the student incurred the expenses while not enrolled and/or will not be returning, the payment request must be processed on a T-27 Form through the System Accounts Payable Office. Indicate on the T-27 that this is a non-enrolled student payment.

'No' answer to NOTE 4 – the payment qualifies as a University business expense reimbursement that is not subject to reporting. Such reimbursements should be submitted to Accounts Payable in accordance with University Travel Policy. To ensure the timely and accurate reporting of all University expenses, reimbursements should be substantiated, documented, and reported on an approved Travel Voucher Request no later than thirty (30) days after completion of a trip or the date on which the business related expense was incurred.

STUDENTS HIRED AS INDEPENDENT CONTRACTORS:

IN ALMOST ALL CASES, STUDENTS WHO PROVIDE SERVICES TO THE UNIVERSITY WILL BE CLASSIFIED AS EMPLOYEES AND SHOULD BE PAID VIA PAYROLL. Generally, students may not be hired as consultants or independent contractors because they lack the requisite experience and skill to be considered as such.

To qualify as an independent contractor, the student's work relationship must be consistent with the qualifications noted in [Fiscal Policy FI0540](#) and require completion of the Employee or Independent Contractor Questionnaire. Examples of student workers who may qualify as IC are disc jockeys and other performers who have a bona fide business, provide the same service to others, have their own equipment, etc. Independent Contractor payments are processed by Accounts Payable and reported on Form 1099-MISC if \$600 or more.