

Tax Treatment of Scholarships, Fellowships, and Stipends

Prepared for the PhD students at Oregon Health and Science University

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OBJECTIVE:

To present basic information regarding the tax status of various payments made by the University to students. We will address tax withholding, reporting requirements and procedures so that students will have a basic understanding of their tax obligations.

In addition, because of the complexity of the tax code and its frequent modification either through legislative or administrative action or judicial decisions, the issue addressed can only be discussed in general terms.

COMMON TERMINOLOGY:

- **Stipends** – A stipend is provided as a subsistence allowance for fellows (e.g., Kirshstein-NRSA fellows) to help defray living expenses during the research training experience. It is not provided as a condition of employment with either the Federal government or the sponsoring institution.
- **Compensation:** Cash or noncash payments for services rendered. A payment need not be labeled as compensation to be considered compensation. Remuneration for performing research for the University is a form of compensation and not a fellowship.
- **Employee:** Any individual, who, under the common law rules applicable in determining the employer-employee relationship, has the status of an employee.
- **Employment:** Any service, of whatever nature, performed by an employee for the person employing him, irrespective of citizenship or residency of such employee.
- **Fellowship:** An amount given to support a student's research, usually at the graduate level.
- **Grant:** Another term for scholarship/fellowship that implies the student is not required to repay the amount.
- **Prize or Award:** Any form of award or payment to a student who has entered and won a contest or competition. Examples include raffles, contests and competitions for the best design or story, or being the top performer.
- **Scholarship:** To be considered a scholarship, an amount does not need to be formally designated as such. Generally, a scholarship is an amount paid for the benefit of a student, to aid the student in the pursuit of study at an educational institution. A scholarship or fellowship payment may be in the form of a reduction in the amount owed by the payee to an educational organization for tuition, room and board, or other fees (tuition waiver).

PAYMENT METHODS:

Wages (W-2)

- Wages are payment for services rendered. This includes work provided by degree candidates (undergraduate and graduate students) and non-degree candidates (e.g., post-doctoral students and fellows).
- These payments are processed through the payroll system and Federal, State and FICA taxes will be withheld according to IRS, Social Security Administration and State Department of Taxation regulations.
- All of these individuals are considered employees of the University and as such will receive a W-2 form at year-end, reporting their total income and taxes withheld.

PAYMENT METHODS:

Scholarships, Fellowships, and Stipends (1099-MISC or 1098-T)

- Scholarships and fellowships are payments to students for which no services are rendered or required. These awards are granted for the purpose of off-setting the cost of tuition, room and board, fees and/or other incidental expenses of attending the University.
- The IRS classifies scholarship/fellowship payments as Miscellaneous Income. Not taxes are withheld from these payments, although the University does report the payments to the IRS. If the scholarship/fellowship awards are not used by the student to offset the cost of qualified tuition and certain other expenses specified in the tax law then these moneys should be reported as income to the IRS by the student.

FEDERAL INCOME TAX:

Wage Payments (See W-2 Attachment)

- Students' wages are reported on Form W-2 (Wage and Tax Statement). All wage payments are subject to Federal State income taxes.
- Students with simple tax reporting requirements may be able to file the IRS Short Form – U.S. Individual Income Tax Return.

FEDERAL INCOME TAX:

Scholarship, Fellowships, and Stipends

(See 1099-MISC Attachment)

Degree Candidates:

- The tax exclusion for scholarships and fellowships is specifically defined in Section 117 of the IRS Tax Code. Scholarships and fellowships are excluded from gross income if they are used for certain tuition, fees, books, supplies, and equipment required for courses of instruction incurred by an individual who is a candidate for a degree.
- If scholarships and fellowships are used for expenses other than tuition, fees, books and supplies, then per IRS regulations, the portion used for room, board and other incidental expenses is considered taxable income and should be reported to the IRs by the student. In addition, any portion of amounts received as a grant representing payment for teaching, research or other services required as a condition of receiving the grant should be reported as taxable income.
- It is the responsibility of the student to report scholarship payments as taxable income when the funds are used for non-tuition payment purposes. Failure to file and make quarterly payments may result in tax penalties.

Non-Degree Candidates:

- Scholarship and fellowship payments to non-degree candidates are taxable income for Federal and State income taxes.

EXAMPLES:

A **fellowship** grant generally is an amount paid for the benefit of an individual to aid in the pursuit of study or research.

- **Example 1**

Tammy Graves receives a \$6,000 fellowship grant that is not designated for any specific use. Tammy is a degree candidate. She spends \$5,500 for tuition and \$500 for her personal expenses. Tammy is required to include \$500 in income.

A **scholarship** generally is an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be in either a graduate or an undergraduate program.

- **Example 2**

Ursula Harris, a degree candidate, receives a \$2,000 scholarship, with \$1,000 specifically designated for tuition and \$1,000 specifically designated for living expenses. Her tuition is \$1,600. She may exclude \$1,000 from income, but the other \$1,000 designated for living expenses is taxable and must be included in income.

HOW TO REPORT FEDERRAL TAXES:

- If you file Form 1040EZ, include the taxable amount of your scholarship or fellowship on line 1. Print "SCH" and any taxable amount not reported on a W-2 form in the space to the right of the words "W-2 form(s)" on line 1.
- If you file Form 1040A or Form 1040, include the taxable amount on line 7. Print "SCH" and any taxable amount not reported on a W-2 form in the space to the left of line 7 on Form 1040A or on the dotted line next to line 7 on Form 1040.

OREGON INCOME TAX:

- Students whose income exceeds the allowable standard deduction and exemptions for Oregon may be required to pay income taxes.
- For income tax purposes, the laws of Oregon generally parallel Federal requirements concerning scholarships and fellowships.

NONRESIDENT ALIENS:

- Stipends, tuition waivers, or any other financial aid paid to or on behalf of NONRESIDENT ALIENS which require the recipient to perform services past, present, or future, in exchange for the financial aid are taxable as wages, are reportable to IRS on Forms 941 and W-2, and are subject to the withholding rules discussed under "[Wages Paid to Aliens](#)".
- In general, scholarships, fellowships, and grants which originate from sources outside the United States are not taxable to NONRESIDENT ALIENS who receive such grants; nor are such grants reportable to the Internal Revenue Service. Scholarships and fellowships paid by a U.S. grantor to a NONRESIDENT ALIEN who performs his study, research, or training outside the United States are considered to be foreign-source grants, and are therefore not reportable to the IRS and are not subject to withholding.

References/Related Topics:

[Foreign Students and Scholars](#)

<http://www.irs.gov/businesses/small/international/article/0,,id=96431,00.html>

QUESTION #1:

Making quarterly estimated tax payments, what are the requirements and penalties involved?

- The grantor of a scholarship or fellowship may not withhold taxes sufficient to cover the tax liability for the taxable portion of the funds received. You may have to make estimated tax payments.
- The federal income tax is a pay-as-you-go tax. You must pay taxes as you earn or receive income throughout the year. If you earn income that is not subject to withholding, you will likely need to make estimated tax payments each quarter of the tax year.
- Generally, you must make estimated tax payments if you expect to owe at least \$1,000 in tax after subtracting your withholding and credits, and you expect the withholding and credits to be less than the smaller of (1) 90% of the total tax for the year or (2) 100% of the total tax shown on your preceding year's tax return. Estimated tax payments are due quarterly on April 15, June 15, September 15 and January 15 of the following year.
- If you do not pay enough taxes through withholding and estimated payments, you may be subject to an underpayment penalty.

QUESTION #2:

Does the “Making Work Pay” credit apply to our tax situation?

- In 2009 and 2010, the Making Work Pay provision of the American Recovery and Reinvestment Act will provide a refundable tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers filing joint returns.
- This tax credit will be calculated at a rate of 6.2 percent of earned income and will phase out for taxpayers with modified adjusted gross income in excess of \$75,000, or \$150,000 for married couples filing jointly.
- For people who receive a paycheck and are subject to withholding, the credit will typically be handled by their employers through automated withholding changes. These changes may result in an increase in take-home pay. The amount of the credit will be computed on the employee's 2009 income tax return filed in 2010 and the employee's 2010 tax return filed in 2011. Taxpayers who do not have taxes withheld by an employer during the year can also claim the credit on their 2009 and 2010 tax returns.
- Only US citizens and resident aliens with a valid Social Security number are eligible for the Making Work Pay credit.
- Anyone claimed as a dependent is **not eligible** for the credit. That means kids who are working, including college students who are still claimed as dependents, are not eligible for the credit.

QUESTION #3:

Do we have to pay self-employment tax on our 1099-MISC income?

Federal Tax Decision: Marc W. Spiegelman

- **Rev. Rul. 30-378, 1960-2 C.B. 38**, the Commissioner ruled that scholarships and fellowship grants are not subject to tax on self-employment income:
 - “[Scholarships and fellowship grants] do not constitute income from a trade or business and, hence, are not to be included in the recipient’s net earnings from self-employment for purposes of the Self-Employment Contributions Act. The terms “fellowship grant” and “trade or business” are inconsistent and mutual exclusive. Amounts received under a fellowship grant which qualifies as such under section 117 of the Code cannot be deemed to be income from a trade or business....”
 - Accordingly, even though part of a section 117 scholarship or fellowship grant must be included in the recipient’s gross income because of the limitations prescribed in section 117(b)(2) of the Code, *no part* of the grant is subject to the tax on self-employment income imposed by section 1401 of the Code.

QUESTION #5:

What is the Oregon housing and living expense deduction and how does it apply to our situation?

- You can subtract scholarships or grants used for housing expenses from Oregon income. You must include the scholarship or grant in federal taxable income for the year to claim the subtraction.
- You can claim the subtraction if the scholarship or grant was awarded to you or your dependent. You must use the money for housing expenses. The recipient must attend an accredited community college, college, university, or other institution of higher education.
- You may not take a subtraction if the money is deducted on your federal income tax return for the year. There is no carryforward allowed

QUESTION #6:

Does receiving a 1099-MISC prevent us from investing in a pre-tax IRA (Traditional IRA) or after-tax IRA (Roth IRA)?

Compensation for purposes of an IRA:

- **Wages, salaries, etc.** Wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services are compensation. The IRS treats as compensation any amount properly shown in box 1 (Wages, tips, other compensation) of Form W-2, Wage and Tax Statement, provided that amount is reduced by any amount properly shown in box 11 (Nonqualified plans). Scholarship and fellowship payments are compensation for IRA purposes only if shown in box 1 of Form W-2.
- **Commissions.** An amount you receive that is a percentage of profits or sales price is compensation.
- **Self-employment income.** If you are self-employed (a sole proprietor or a partner), compensation is the net earnings from your trade or business (provided your personal services are a material income-producing factor) reduced by the total of:
 - The deduction for contributions made on your behalf to retirement plans, and
 - The deduction allowed for one-half of your self-employment taxes.
- **Self-employed health insurance deduction.** *You must add back any self-employed health insurance deduction you used in figuring the amount to enter on Schedule SE, line 3.*
- **Self-employment loss.** *If you have a net loss from self-employment, do not subtract the loss from your salaries or wages when figuring your total compensation.*
- **Alimony and separate maintenance.** For IRA purposes, compensation includes any taxable alimony and separate maintenance payments you receive under a decree of divorce or separate maintenance.
- **Nontaxable combat pay.** If you were a member of the U.S. Armed Forces, compensation includes any nontaxable combat pay you received. This amount should be reported in box 12 of your 2010 Form W-2 with code Q.

ADDITIONAL QUESTIONS?

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 - 503.716.9213

SUMMARY OF THE RULES:

- You must be a candidate for a degree for your scholarship to be tax free.
- Only amounts for tuition, fees, books supplies, and required equipment are tax free. Amounts for other expenses, such as room, board, and travel, are taxable.
- The part of any grant that represents payment for teaching, research or other services is taxable.

SUMMARY:

Payment for:	Degree Candidate:	Non-Degree Candidate
Tuition	Tax Free*	Taxable
Fees	Tax Free*	Taxable
Books	Tax Free*	Taxable
Supplies	Tax Free*	Taxable
Equipment	Tax Free*	Taxable
Room & Board	Taxable	Taxable
Travel	Taxable	Taxable
Teaching	Taxable	Taxable
Research	Taxable	Taxable
Other Services	Taxable	Taxable

* If required of all students in the course

STUDENT RESPONSIBILITY:

- Students are responsible for completing the correct tax forms and providing them to the University, and notifying the department of changes in their tax status and change of address.

REQUIRED CIRCULAR 230 NOTICE:

- *Please note, under current IRS regulations, we must inform you that any tax advice in this communication is not intended or written by AKT to be used, and cannot be used, by a client or any other person or entity for the purpose of (1) avoiding penalties that may be imposed on any taxpayer or (2) promoting, marketing or recommending to another party any matters addressed herein.*

RESOURCES:

- IRS Tax Code Section 117, [Withholding Federal Income Tax on Scholarships, Fellowships, and Grants Paid to Aliens](#)
- IRS Publication 970, [Tax Benefits for Education](#)
- www.irs.gov
- www.1040.com
- www.investopedia.com

Control number 763062329		Employer identification number 93-1176109		COPY B To Be Filed With Employee's FEDERAL Tax Return			
Employer's name, address and zip code Oregon Health & Science University 3181 SW Sam Jackson Park Road Portland OR 97239		Employee's SSN		1 Wages, tips, other compensation	2 Federal income tax withheld		
		7 Social security tips		3 Social security wages	4 Social security tax withheld		
		8 Allocated tips		5 Medicare wages and tips	6 Medicare tax withheld		
Employee's first name and init Last Name Suffix		9 Advance EIC payment		10 Dependent care benefits		11 Nonqualified plans	
		12a		13 Statutory Employee <input type="checkbox"/>		14 Other	
		12b		Retirement Plan <input type="checkbox"/>			
		12c		Third-party sick pay <input type="checkbox"/>			
12d							
Employee's address and ZIP code							
15 State OR	Employer's State ID number 0-503419-8	16 State wages, tips etc.	17 State income tax	18 Local wages, tips etc.	19 Local income tax	20 Locality name	

This information is being furnished to the Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. OHSU OREGON HEALTH & SCIENCE UNIVERSITY P.O. BOX 572 PORTLAND OR 97207 503-494-8056		1 Rents \$ 0.00	OMB No. 1545-0115 2010	Miscellaneous Income
		2 Royalties \$ 0.00	Form 1099-MISC	
		3 Other income \$	4 Federal income tax withheld \$ 0.00	Copy B For Recipient
PAYER'S federal identification number 93-1176109	RECIPIENT'S identification number	5 Fishing boat proceeds \$ 0.00	6 Medical and health care payments \$ 0.00	
RECIPIENT'S name		7 Nonemployee compensation \$ 0.00	8 Substitute payments in lieu of dividends or interest \$ 0.00	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$ 0.00	
City, state, and ZIP code		11	12	
Account number (see instructions)		13 Excess golden parachute payments \$ 0.00	14 Gross proceeds paid to an attorney \$ 0.00	
15a Section 409A deferrals \$ 0.00	15b Section 409A income \$ 0.00	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$

Form 1040EZ

Income Tax Return for Single and Joint Filers With No Dependents (99)

2010

OMB No. 1545-0074

Name, Address, and SSN

See separate instructions.

Presidential Election Campaign (see page 9)

PRINT CLEARLY

Form fields for Name, Address, and SSN including first name, last name, spouse's name, home address, and city/ZIP code.

Form fields for social security numbers and a warning to ensure they are correct.

Checking a box below will not change your tax or refund.

Check here if you, or your spouse if a joint return, want \$3 to go to this fund . . . You Spouse

Income

Attach Form(s) W-2 here.

Enclose, but do not attach, any payment.

You may be entitled to a larger deduction if you file Form 1040A or 1040. See Before You Begin on page 4.

Income section lines 1-6: Wages, salaries, and tips; Taxable interest; Unemployment compensation; Adjusted gross income; Dependent status; Taxable income.

Payments, Credits, and Tax

Payments, Credits, and Tax section lines 7-11: Federal income tax withheld; Making work pay credit; Earned income credit; Total payments and credits; Tax.

Refund

Have it directly deposited! See page 18 and fill in 12b, 12c, and 12d or Form 8888.

Refund section lines 12a-12d: Refund calculation and routing/account numbers.

Amount You Owe

Amount You Owe line 13: Calculation of amount owed.

Third Party Designee

Third Party Designee section: Do you want to allow another person to discuss this return with the IRS? Designee's name, phone, and PIN.

Sign Here

Joint return? See page 6.

Keep a copy for your records.

Sign Here section: Declaration of preparer and signature lines for taxpayer and spouse.

Paid Preparer Use Only

Paid Preparer Use Only section: Preparer's name, signature, date, firm's name, address, and EIN.

Worksheet for Line 5 — Dependents Who Checked One or Both Boxes

Use this worksheet to figure the amount to enter on line 5 if someone can claim you (or your spouse if married filing jointly) as a dependent, even if that person chooses not to do so. To find out if someone can claim you as a dependent, see Pub. 501.

A. Amount, if any, from line 1 on front + 300.00 Enter total ▶ A.
B. Minimum standard deduction B. 950.00
C. Enter the larger of line A or line B here C.
D. Maximum standard deduction. If single, enter \$5,700; if married filing jointly, enter \$11,400 D.
E. Enter the smaller of line C or line D here. This is your standard deduction E.
F. Exemption amount.
• If single, enter -0-.
• If married filing jointly and —
—both you and your spouse can be claimed as dependents, enter -0-.
—only one of you can be claimed as a dependent, enter \$3,650. } F.
G. Add lines E and F. Enter the total here and on line 5 on the front G.

(keep a copy for your records)

If you did not check any boxes on line 5, enter on line 5 the amount shown below that applies to you.
• Single, enter \$9,350. This is the total of your standard deduction (\$5,700) and your exemption (\$3,650).
• Married filing jointly, enter \$18,700. This is the total of your standard deduction (\$11,400), your exemption (\$3,650), and your spouse's exemption (\$3,650).

Worksheet for Line 8 — Making Work Pay Credit

Before you begin: ✓ If you can be claimed as a dependent on someone else's return, you do not qualify for this credit.
✓ If married filing jointly, include your spouse's amounts with yours when completing this worksheet.

Use this worksheet to figure the amount to enter on line 8 if you cannot be claimed as a dependent on another person's return.

(keep a copy for your records)

1a. Important. See the instructions on page 12 if (a) you received a taxable scholarship or fellowship grant not reported on a Form W-2, (b) your wages include pay for work performed while an inmate in a penal institution, or (c) you received a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan.
Do you (and your spouse if filing jointly) have 2010 wages of more than \$6,451 (\$12,903 if married filing jointly)?
[] Yes. Skip lines 1a through 3. Enter \$400 (\$800 if married filing jointly) on line 4 and go to line 5.
[] No. Enter your earned income (see instructions) 1a.
b. Nontaxable combat pay included on line 1a (see instructions) 1b.
2. Multiply line 1a by 6.2% (.062) 2.
3. Enter \$400 (\$800 if married filing jointly) 3.
4. Enter the smaller of line 2 or line 3 (unless you checked "Yes" on line 1a) 4.
5. Enter amount from Form 1040EZ, line 4 (on front) 5.
6. Enter \$75,000 (\$150,000 if married filing jointly) 6.
7. Is the amount on line 5 more than the amount on line 6?
[] No. Skip line 8. Enter the amount from line 4 on line 9 below.
[] Yes. Subtract line 6 from line 5. 7.
8. Multiply line 7 by 2% (.02) 8.
9. Subtract line 8 from line 4. If zero or less, enter -0- 9.
10. Did you (or your spouse, if filing jointly) receive an economic recovery payment in 2010? You may have received this payment in 2010 if you did not receive an economic recovery payment in 2009 but you received social security benefits, supplemental security income, railroad retirement benefits, or veterans disability compensation or pension benefits in November 2008, December 2008, or January 2009 (see instructions).
[] No. Enter -0- on line 10 and go to line 11.
[] Yes. Enter the total of the payments you (and your spouse, if filing jointly) received in 2010. Do not enter more than \$250 (\$500 if married filing jointly). 10.
11. Making work pay credit. Subtract line 10 from line 9. If zero or less, enter -0-. Enter the result here and on Form 1040EZ, line 8. 11.

Mailing Return

Mail your return by April 18, 2011. Mail it to the address shown on the last page of the instructions.

**Name,
Address,
and SSN**

See separate
instructions.

PRINT CLEARLY	Your first name and initial	Last name	
	If a joint return, spouse's first name and initial	Last name	
	Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.
	City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.		

OMB No. 1545-0074

Your social security number _____

Spouse's social security number _____

▲ Make sure the SSN(s) above and on line 6c are correct.

**Presidential
Election Campaign**

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. You Spouse

**Filing
status**

Check only
one box.

- 1 Single
- 2 Married filing jointly (even if only one had income)
- 3 Married filing separately. Enter spouse's SSN above and full name here. ▶
- 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
- 5 Qualifying widow(er) with dependent child (see instructions)

Exemptions

- 6a Yourself. If someone can claim you as a dependent, do not check box 6a.
- b Spouse

If more than six
dependents, see
instructions.

(1) Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see page 16)
First name	Last name			
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

Boxes checked on 6a and 6b

No. of children on 6c who:

- lived with you _____
- did not live with you due to divorce or separation (see instructions) _____

Dependents on 6c not entered above _____

Add numbers on lines above ▶

d Total number of exemptions claimed.

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 20.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7
8a	Taxable interest. Attach Schedule B if required.	8a
b	Tax-exempt interest. Do not include on line 8a.	8b
9a	Ordinary dividends. Attach Schedule B if required.	9a
b	Qualified dividends (see instructions).	9b
10	Capital gain distributions (see instructions).	10
11a	IRA distributions.	11a
11b	Taxable amount (see instructions).	11b
12a	Pensions and annuities.	12a
12b	Taxable amount (see instructions).	12b
13	Unemployment compensation and Alaska Permanent Fund dividends.	13
14a	Social security benefits.	14a
14b	Taxable amount (see instructions).	14b
15	Add lines 7 through 14b (far right column). This is your total income. ▶	15

**Adjusted
gross
income**

16	Educator expenses (see instructions).	16
17	IRA deduction (see instructions).	17
18	Student loan interest deduction (see instructions).	18
19	Tuition and fees. Attach Form 8917.	19
20	Add lines 16 through 19. These are your total adjustments.	20
21	Subtract line 20 from line 15. This is your adjusted gross income. ▶	21

Tax, credits, and payments	22	Enter the amount from line 21 (adjusted gross income).	22	
	23a	Check <input type="checkbox"/> You were born before January 2, 1946, <input type="checkbox"/> Blind } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1946, <input type="checkbox"/> Blind } checked ▶ 23a <input type="checkbox"/>		
	b	If you are married filing separately and your spouse itemizes deductions, see page 30 and check here ▶ 23b <input type="checkbox"/>		
	24	Enter your standard deduction (see instructions).	24	
	25	Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	
	26	Exemptions. Multiply \$3,650 by the number on line 6d.	26	
	27	Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-. This is your taxable income. ▶ 27	27	
	28	Tax , including any alternative minimum tax (see instructions).	28	
	29	Credit for child and dependent care expenses. Attach Form 2441.	29	
	30	Credit for the elderly or the disabled. Attach Schedule R.	30	
	31	Education credits from Form 8863, line 23.	31	
	32	Retirement savings contributions credit. Attach Form 8880.	32	
	33	Child tax credit (see instructions).	33	
	34	Add lines 29 through 33. These are your total credits.	34	
	35	Subtract line 34 from line 28. If line 34 is more than line 28, enter -0-.	35	
	36	Advance earned income credit payments from Form(s) W-2, box 9.	36	
	37	Add lines 35 and 36. This is your total tax. ▶ 37	37	
	38	Federal income tax withheld from Forms W-2 and 1099.	38	
	39	2010 estimated tax payments and amount applied from 2009 return.	39	
	40	Making work pay credit. Attach Schedule M.	40	
	41a	Earned income credit (EIC).	41a	
	b	Nontaxable combat pay election. 41b		
	42	Additional child tax credit. Attach Form 8812.	42	
	43	American opportunity credit from Form 8863, line 14.	43	
	44	Add lines 38, 39, 40, 41a, 42, and 43. These are your total payments. ▶ 44	44	
	45	If line 44 is more than line 37, subtract line 37 from line 44. This is the amount you overpaid.	45	
	46a	Amount of line 45 you want refunded to you. If Form 8888 is attached, check here ▶ <input type="checkbox"/> 46a		
	b	Routing number <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	d	Account number <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>		
	47	Amount of line 45 you want applied to your 2011 estimated tax.	47	
	48	Amount you owe. Subtract line 44 from line 37. For details on how to pay, see instructions. ▶ 48	48	
	49	Estimated tax penalty (see instructions).	49	
Third party designee	Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No			
	Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶	<input type="text"/>
Sign here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.			
	Your signature	Date	Your occupation	Daytime phone number
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	
Paid preparer use only	Print/type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed <input type="checkbox"/> PTIN
	Firm's name ▶			Firm's EIN ▶
	Firm's address ▶			Phone no.

If you have a qualifying child, attach Schedule EIC.

Direct deposit? See instructions and fill in 46b, 46c, and 46d or Form 8888.

Joint return? See page 13. Keep a copy for your records.

Name, Address, and SSN

See separate instructions.

PRINT CLEARLY

For the year Jan. 1–Dec. 31, 2010, or other tax year beginning , 2010, ending , 20
Your first name and initial Last name
If a joint return, spouse's first name and initial Last name
Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see instructions.

OMB No. 1545-0074

Your social security number
Spouse's social security number
Make sure the SSN(s) above and on line 6c are correct.

Presidential Election Campaign

Check here if you, or your spouse if filing jointly, want \$3 to go to this fund You Spouse

Filing Status

- 1 Single
2 Married filing jointly (even if only one had income)
3 Married filing separately. Enter spouse's SSN above and full name here.
4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 Qualifying widow(er) with dependent child

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a.
6b Spouse
6c Dependents:
(1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if child under age 17 qualifying for child tax credit (see page 15)

If more than four dependents, see instructions and check here

Boxes checked on 6a and 6b
No. of children on 6c who:
lived with you
did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2
8a Taxable interest. Attach Schedule B if required
b Tax-exempt interest. Do not include on line 8a
9a Ordinary dividends. Attach Schedule B if required
b Qualified dividends
10 Taxable refunds, credits, or offsets of state and local income taxes
11 Alimony received
12 Business income or (loss). Attach Schedule C or C-EZ
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here
14 Other gains or (losses). Attach Form 4797
15a IRA distributions
16a Pensions and annuities
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
18 Farm income or (loss). Attach Schedule F
19 Unemployment compensation
20a Social security benefits
21 Other income. List type and amount
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 20.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

Adjusted Gross Income

23 Educator expenses
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
25 Health savings account deduction. Attach Form 8889
26 Moving expenses. Attach Form 3903
27 One-half of self-employment tax. Attach Schedule SE
28 Self-employed SEP, SIMPLE, and qualified plans
29 Self-employed health insurance deduction
30 Penalty on early withdrawal of savings
31a Alimony paid b Recipient's SSN
32 IRA deduction
33 Student loan interest deduction
34 Tuition and fees. Attach Form 8917.
35 Domestic production activities deduction. Attach Form 8903
36 Add lines 23 through 31a and 32 through 35
37 Subtract line 36 from line 22. This is your adjusted gross income



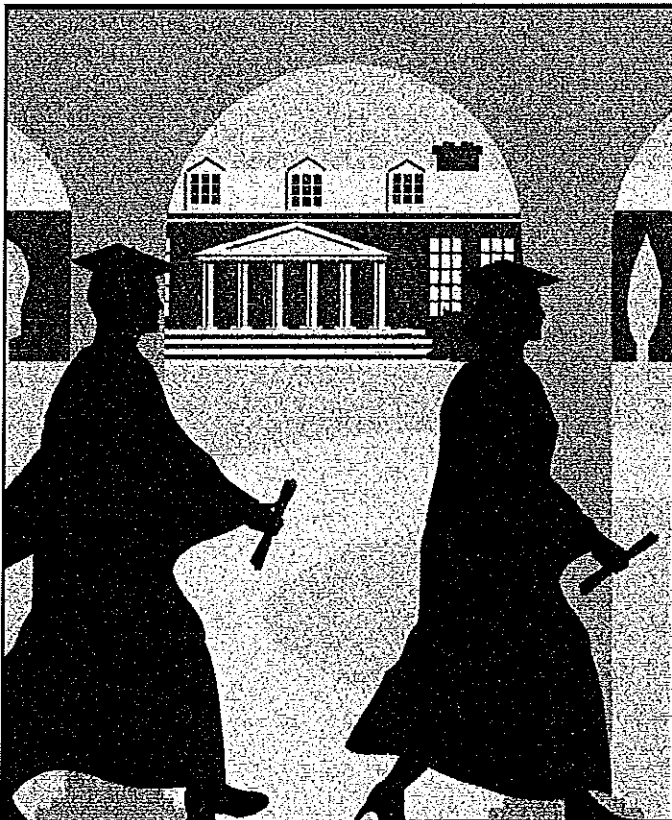
Department of the Treasury
Internal Revenue Service

Publication 970

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Tax Benefits for Education

For use in preparing
2010 Returns



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1.

Scholarships, Fellowships, Grants, and Tuition Reductions

Reminder

Individual retirement arrangements (IRAs). You can set up and make contributions to an IRA if you receive taxable compensation. Under this rule, a taxable scholarship or fellowship is compensation only if it is shown in box 1 of your Form W-2, Wage and Tax Statement. For more information about IRAs, see Publication 590.

Introduction

This chapter discusses the tax treatment of various types of educational assistance you may receive if you are studying, teaching, or researching in the United States. The educational assistance can be for a primary or secondary school, a college or university, or a vocational school. Included are discussions of:

- Scholarships,
- Fellowships,
- Need-based education grants, such as a Pell Grant, and
- Qualified tuition reductions.

Many types of educational assistance are tax free if they meet the requirements discussed here.

Special rules apply to U.S. citizens and resident aliens who have received scholarships or fellowships for studying, teaching, or researching abroad. For information about these rules, see Publication 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad.

Scholarships and Fellowships

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or a graduate.

A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

Table 1-1 provides an overview of the tax treatment of amounts received as a scholarship or fellowship (other than amounts received as payment for services). Generally, whether the amount is tax free or taxable depends on the expense paid with the amount and whether you are a degree candidate.

Table 1-1. Tax Treatment of Scholarship and Fellowship Payments¹

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.

Tax-Free Scholarships and Fellowships

A scholarship or fellowship is tax free only if:

- You are a candidate for a degree at an eligible educational institution, and
- You use the scholarship or fellowship to pay qualified education expenses.

Candidate for a degree. You are a candidate for a degree if you:

1. Attend a primary or secondary school or are pursuing a degree at a college or university, or
2. Attend an accredited educational institution that is authorized to provide:
 - a. A program that is acceptable for full credit toward a bachelor's or higher degree, or
 - b. A program of training to prepare students for gainful employment in a recognized occupation.

Eligible educational institution. An eligible educational institution is one that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Qualified education expenses. For purposes of tax-free scholarships and fellowships, these are expenses for:

- Tuition and fees required to enroll at or attend an eligible educational institution, and
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

However, in order for these to be qualified education expenses, the terms of the scholarship or fellowship cannot require that it be used for other purposes, such as room and board, or specify that it cannot be used for tuition or course-related expenses.

Expenses that do not qualify. Qualified education expenses do not include the cost of:

- Room and board,
- Travel,
- Research,
- Clerical help, or
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution.

This is true even if the fee must be paid to the institution as a condition of enrollment or attendance. Scholarship or fellowship amounts used to pay these costs are taxable.

Athletic Scholarships

An athletic scholarship is tax free if it meets the requirements discussed earlier.

Worksheet 1-1. You can use the worksheet below to figure the tax-free and taxable parts of your scholarship or fellowship.

Worksheet 1-1. Taxable Scholarship and Fellowship Income

Keep for Your Records



1. Enter your scholarship or fellowship income for 2010	1. _____
<ul style="list-style-type: none"> • 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 <i>Reporting Scholarships and Fellowships</i> later in this chapter. 	
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 education expenses	4. _____
5. Subtract line 4 from line 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 from line 5	7. _____
8. Taxable part. Add lines 2, 4, and 7. See <i>Reporting Scholarships and Fellowships</i> 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.

Taxable Scholarships and Fellowships

If your scholarship or fellowship does not meet the requirements described earlier, it is taxable. The following amounts received may be taxable.

- Amounts used to pay expenses that do not qualify.
- Payments for services.
- Scholarship prizes.

Each type is discussed below.

Amounts used to pay expenses that do not qualify. A scholarship amount you use to pay any expense that does not qualify is taxable, even if the expense is a fee that you must pay to the institution as a condition of enrollment or attendance.

Payment for services. Generally, you must include in income the part of any scholarship, fellowship, or tuition reduction that represents payment for past, present, or future teaching, research, or other services. This applies even if all candidates for a degree must perform the services to receive the degree. (See below for exceptions.)

Exceptions. You do not have to include in income the part of any scholarship or fellowship that represents payment for teaching, research, or other services if you receive the amount under:

- The National Health Service Corps Scholarship Program, or
- The Armed Forces Health Professions Scholarship and Financial Assistance Program,

and you:

- Are a candidate for a degree at an eligible educational institution, and

- Use that part of the scholarship or fellowship to pay qualified education expenses.

Example 1. You received a scholarship of \$2,500. The scholarship was not received under either of the exceptions mentioned above. As a condition for receiving the scholarship, you must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for teaching. The provider of your scholarship gives you a Form W-2 showing \$1,000 as income. You used all the money for qualified education expenses. Assuming that all other conditions are met, \$1,500 of your scholarship is tax free. The \$1,000 you received for teaching is taxable.

Example 2. You are a candidate for a degree at a medical school. You receive a scholarship (not under either of the exceptions mentioned above) for your medical education and training. The terms of your scholarship require you to perform future services. A substantial penalty applies if you do not comply. The entire amount of your grant is taxable as payment for services in the year it is received.

Scholarship prizes. If you win a scholarship as a prize in a contest, the scholarship is fully taxable unless you meet the requirements discussed earlier under *Tax-Free Scholarships and Fellowships*.

Reporting Scholarships and Fellowships

Whether you must report your scholarship or fellowship depends on whether you must file a return and whether any part of your scholarship or fellowship is taxable.

If your only income is a completely tax-free scholarship or fellowship, you do not have to file a tax return and no reporting is necessary. If all or part of your scholarship or fellowship is taxable and you are required to file a tax return, report the taxable amount as explained below. You must report the taxable amount whether or not you received a Form W-2. If you receive an incorrect Form W-2, ask the payer for a corrected one.

For information on whether you must file a return, see Publication 501, Exemptions, Standard Deduction, and Filing Information, or your income tax form instructions.

How To Report

How you report any taxable scholarship or fellowship income depends on which return you file.

Form 1040EZ. If you file Form 1040EZ, include the taxable amount in the total on line 1. If the taxable amount was not reported on Form W-2, also enter "SCH" and the taxable amount in the space to the left of line 1.

Form 1040A. If you file Form 1040A, include the taxable amount in the total on line 7. If the taxable amount was not reported on Form W-2, also enter "SCH" and the taxable amount in the space to the left of line 7.

Form 1040. If you file Form 1040, include the taxable amount in the total on line 7. If the taxable amount was not reported on Form W-2, also enter "SCH" and the taxable amount on the dotted line next to line 7.

Schedule SE (Form 1040). To determine your net earnings from self-employment, include amounts you receive under a scholarship as pay for your services that are reported to you on Form 1099-MISC, Miscellaneous Income. If your net earnings are \$400 or more, you must pay self-employment tax. Use Schedule SE, Self-Employment Tax, to figure this tax.

Form 1040NR. If you file Form 1040NR, report the taxable amount on line 12. Generally, you must report the amount shown in box 2 of Form(s) 1042-S, Foreign Person's U.S. Source Income Subject to Withholding. See the Instructions for Form 1040NR for more information.

Form 1040NR-EZ. If you file Form 1040NR-EZ, report the taxable amount on line 5. Generally, you must report the amount shown in box 2 of Form(s) 1042-S. See the Instructions for Form 1040NR-EZ for more information.

Other Types of Educational Assistance

The following discussions deal with common types of educational assistance other than scholarships and fellowships.

Fulbright Grants

A Fulbright grant is generally treated as a scholarship or fellowship in figuring how much of the grant is tax free. Report only the taxable amount on your tax return. See *Reporting Scholarships and Fellowships* on this page.

Pell Grants and Other Title IV Need-Based Education Grants

These need-based grants are treated as scholarships for purposes of determining their tax treatment. They are tax free to the extent used for qualified education expenses during the period for which a grant is awarded. Report only the taxable amount on your tax return. See *Reporting Scholarships and Fellowships* on this page.

Payment to Service Academy Cadets

An appointment to a United States military academy is not a scholarship or fellowship. Payment you receive as a cadet or midshipman at an armed services academy is pay for personal services and will be reported to you in box 1 of Form W-2. Include this pay in your income in the year you receive it unless one of the exceptions, discussed earlier under *Payment for services*, applies.

Veterans' Benefits

Payments you receive for education, training, or subsistence under any law administered by the Department of Veterans Affairs (VA) are tax free. Do not include these payments as income on your federal tax return.

If you qualify for one or more of the education benefits discussed in chapters 2 through 12, you may have to reduce the amount of education expenses qualifying for a specific benefit by part or all of your VA payments. This applies only to the part of your VA payments that is required to be used for education expenses.



Withholding Federal Income Tax on Scholarships, Fellowships, and Grants Paid to Aliens

Payments of scholarships, fellowships, and grants paid to U.S. citizens and resident aliens are not generally reportable to the IRS and are not generally subject to withholding of tax. However, payments of taxable scholarships, fellowships, and grants to nonresident aliens are generally reportable to the IRS and are generally subject to withholding of U.S. Federal income tax.

The items below reflect the regulations under sections 1441-1464 and related sections of the Internal Revenue Code.

- All amounts paid to U.S. CITIZENS and RESIDENT ALIENS in the form of scholarships, fellowships, grants, and financial aid are not required to be reported to the IRS by the payors. (IRS Notice 87-31)
- All amounts paid to NONRESIDENT ALIENS in the form of scholarships, fellowships, grants, and financial aid, which are not excludible from gross income as a "qualified scholarship" under Internal Revenue Code section 117 must be reported to IRS on Forms 1042 and 1042-S, regardless of the amount paid, unless the grant is from sources outside the United States, in which case the grant is neither reportable nor subject to withholding. The "source" of a scholarship or fellowship grant is generally the residence of the payer. However, a scholarship or fellowship paid by a resident of the United States to a nonresident alien who conducts his study, training, or research outside of the United States is considered to be a foreign source grant and is not reportable to the IRS and is not subject to withholding of Federal income tax.
- In general, the taxable portion of a scholarship or fellowship paid to a NONRESIDENT ALIEN is subject to Federal income tax withholding at the rate of 30%, unless the payments are exempt from tax under the Internal Revenue Code or a tax treaty. However, payees who are temporarily present in the United States in F-1, J-1, M-1, Q-1, or Q-2 nonimmigrant status are subject to a reduced 14% withholding rate on the taxable portion of the grant because such individuals are considered to be engaged in a U.S. trade or business under Internal Revenue Code section 871(c).
- **Students only:** In general, those portions of a scholarship, fellowship, or grant used to pay tuition, fees, books, supplies, or equipment are classified as a "Qualified Scholarship" and are not includible in the gross income of the recipient under Internal Revenue Code section 117 if the recipient is a candidate for a degree. Any portion of the scholarship, fellowship, or grant that does not correlate to the five items mentioned above is includible in the gross income of the recipient, which means that it is subject to withholding.
- Stipends, tuition waivers, or any other financial aid paid to or on behalf of NONRESIDENT ALIENS which require the recipient to perform services past, present, or future, in exchange for the financial aid are taxable as wages, are reportable to IRS on Forms 941 and W-2, and are subject to the withholding rules discussed under "Wages Paid to Aliens".
- For non-degree candidates, the entire grant is includible in the gross income of the recipient and is subject to withholding. Research grants awarded to post-doctoral research scholars are entirely includible in the gross income of the nonresident alien recipient and, as such, are subject to withholding. However, certain deductions related to the research may be allowable against the gross income.
- Treasury Regulation section 1.1441-4(c)(2) and Revenue Procedure 88-24 provide an alternative withholding procedure for withholding tax on scholarships and fellowships paid to recipients in F-1, J-1, M-1, Q-1, or Q-2 nonimmigrant status. The alternative procedure involves withholding tax at the same graduated rates that apply to wages, instead of using a flat 14%. It also provides for deduction of the personal exemption amount and certain away-from-home expenses (if applicable) when computing which portion of a grant is taxable and subject to withholding. This alternative withholding procedure may be used at the option of the withholding agent and is not mandatory. It is extremely useful in the case of short-term J-1 trainees whose stay in the United States will not exceed one year.
- Any NONRESIDENT ALIEN grantee who claims that part or all of his scholarship or fellowship is exempt from taxation because of a tax treaty must file Form W-8BEN with the university office charged with receiving and processing such forms. Form W-8BEN is valid until December 31st of the third calendar year following the year in which the form was submitted. However, the validity period of Form W-8BEN is indefinite if the form contains the payee's Taxpayer Identification Number (TIN) on it, as long as a reportable payment of income occurs at least once annually. Any Form W-8BEN becomes invalid on the day in which any of the information contained therein ceases to be valid (e.g., on the day the payee's tax treaty benefit expires). The grant recipient is required to notify the university immediately if an event occurs, which renders the information on Form W-8BEN invalid. The university is responsible for monitoring the tax treaty benefit eligibility period for each student or scholar who has filed a Form W-8BEN, and is responsible for withholding Federal income tax at 14%, at 30%, or at the graduated rates on the taxable portion of the scholarship or fellowship after the tax treaty benefit eligibility period has expired. The university should keep all Forms W-8BEN on file for inspection by the IRS in case of an examination, for as long as the document is relevant to a tax return whose examination statute of limitations is still open.
- For all payments made on or after January 1st, 2001, a Form W-8BEN presented for the purpose of claiming a tax treaty benefit which does not contain a valid TIN (Taxpayer Identification Number) cannot be accepted by the withholding agent as a valid withholding certificate for the purpose of claiming a tax treaty benefit. This means that the withholding agent must withhold tax on the taxable portion of the grant. However, a Form W-8BEN without a TIN may still be accepted as a valid withholding certificate only for the purpose of establishing that the grant recipient is a foreign person.
- Section 1441(c)(6) of the Internal Revenue Code provides that no withholding of Federal income tax is required on grants made to NONRESIDENT ALIEN students and trainees, which originate from funds provided by the U.S. Agency for International Development (USAID) to the extent that such grants consist of "amounts of per diem for subsistence." Any amount of the grant that exceeds a reasonable amount dedicated to subsistence (food and lodging), or any amount of the grant that is dedicated to something other than subsistence, is subject to withholding of Federal income tax. A reasonable amount dedicated to subsistence is usually measured with reference to the U.S. Government per diem rates in effect with respect to each locality in the United States.
- In general, scholarships, fellowships, and grants which originate from sources outside the United States are not taxable to NONRESIDENT ALIENS who receive such grants; nor are such grants reportable to the Internal Revenue Service. Scholarships and fellowships paid by a U.S. grantor to a NONRESIDENT ALIEN who performs his study, research, or training outside the United States are considered to be foreign-source grants, and are therefore not reportable to the IRS and are not subject to withholding.
- For all payments made on or after January 1st, 2001 the recipient of a taxable scholarship or fellowship on which a treaty exemption is being claimed, and who simultaneously receives taxable wages on which a treaty exemption is also being claimed, may claim both treaty exemptions on Form 8233, and not use Form W-8BEN if he so chooses.

References/Related Topics

- [Foreign Students and Scholars](#)