



## TEXAS TECH UNIVERSITY™

### Operating Policy and Procedure

#### **OP 62.17: Payment of Scholarships, Fellowship Grants, and Awards**

**DATE:** April 21, 2016

**PURPOSE:** The purpose of this Operating Policy/Procedure (OP) is to establish procedures for the payment of scholarships and fellowships in accordance with university, state, and federal Internal Revenue Service policies and regulations.

**REVIEW:** This OP will be reviewed in February of even-numbered years by the managing director of Accounting Services (AS) and the managing director of Student Financial Aid (SFA) with substantive revisions forwarded to the assistant vice president for financial and managerial reporting and then to the vice president for administration and finance and chief financial officer.

#### **POLICY/PROCEDURE**

##### **1. Definitions**

- a. Wages – Any payment for past, present, or future services are wages and will be processed through Payroll Services.
- b. Scholarship/Fellowship Grant - The Internal Revenue Service (IRS) defines a scholarship and fellowship grant as amounts paid or provided to or for the benefit of an undergraduate or graduate student to aid such individual in pursuit of study or research. Amounts provided by an individual to aid a relative, friend, or other individual where the grantor is motivated by family or other humanitarian consideration **do not qualify** as scholarships or fellowship grants [§ 1.117-3 (a) and (c), Internal Revenue Code (IRC)].
- c. In addition to payment for tuition and fees, the scholarship or fellowship grant may include assistance for such services as room, board, and laundry service. It may also include any amount received in the nature of a family allowance [§ 1.117-3 (d), IRC].
- d. Candidate for a degree - The IRS defines a candidate for a degree as an undergraduate or graduate student pursuing studies or conducting research to meet the requirements for an academic or professional degree conferred by colleges or universities [§ 1.117-3 (e), IRC].
- e. Award – Payment for recognition of a special achievement, skill, knowledge, or renown in a certain area or given to honor the winner in a contest. All awards made to employees must be processed through Payroll Services (see OP 69.02). All awards made to students who are not also employees must be processed through Procurement Services. If the cumulative amount equals or exceeds \$600 in one calendar year, it will be reported to the IRS and the individual on Form 1099-MISC. A non-employee student who is a nonresident alien for U.S tax purposes will be subject to 30 percent tax withholding. The amount of the award and tax

withholding will be reported to the IRS and the individual on IRS Form 1042-S.

- f. Nonresident Alien – An individual who is not a U.S. citizen, permanent resident alien, or resident alien for U.S. tax purposes.

## 2. Taxability

- a. Scholarships and fellowship grants are excluded from the recipient's gross income for tax purposes if the amount received was used for tuition and fees required for enrollment or attendance or used for books, supplies, and equipment required for courses of instruction. The amounts used for other items such as room and board must be included in the recipient's gross income. Students should read IRS Publication 970, Tax Benefits for Education, to determine if any part of their scholarship is taxable. The publication can be found at the following IRS website address: <http://www.irs.gov/pub/irs-pdf/p970.pdf>.
- b. IRC Section 1441(a) sets forth the general rule that the payor of taxable income to a nonresident alien is required to withhold tax in an amount equal to 30 percent of the payment. Section 1441(b) sets forth an exception to the 30 percent withholding rule and provides that payments made to nonresident alien scholarship/fellowship recipients who are temporarily present in the United States under an F, J, M, or Q visa may be eligible for a reduced 14 percent withholding rate. This withholding requirement only applies to "U.S. source" income. The amount of the withholding may be reduced or eliminated under a tax treaty between the United States and the payee's home country.
- c. Compensation for Required Services

Amounts paid as compensation for either past, present, or future employment services that are subject to the direction or supervision of the grantor (the university) do not qualify as scholarships and fellowship grants [§ 1.117-4 (c) (1), IRC]. If an employer-employee relationship exists (including part-time employment), amounts must be paid as compensation through Payroll Services and cannot be charged to university scholarship and fellowship accounts.

Payments to individuals representing compensation for teaching, research, or other services in the nature of part-time employment required as a condition of receiving the scholarship or fellowship grant will be included in gross income for tax purposes and paid through Payroll Services. This applies even if all candidates for a degree must perform the services to receive the degree.

*Exceptions* [IRC § 117(c)(2)] – An individual does not have to include in income the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services if the individual receives the amount under:

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

## 3. Payment Procedures

- a. These procedures apply only to payments made from university scholarship and fellowship grant (student aid) accounts funded by gifts, donations, or transfers from other university/foundation accounts.

- b. Upon selection of a scholarship or fellowship recipient by the selection committee or department, a scholarship award will be offered from scholarship accounts to recipients by departments entering them on the Scholarship Tracking System: <https://apps.texastech.edu/scholarshipTracking>. Scholarship offers exceeding budget amounts set in the Scholarship Tracking System will be rejected by the system.
- c. Scholarship entries on the Scholarship Tracking System will be loaded into Banner.
- d. All scholarship awards funded by university accounts will be applied to students' accounts at the time of billing. If tuition and fees have been paid by the students, a net amount payable to the student will be disbursed in accordance with procedures in section 3.f.
- e. Confirmed scholarship awards from university accounts funded annually by external donors will not be applied to students' accounts until the funds are received. If monies are not received for these awards by the twelfth class day for the fall and spring semesters or the fourth class day for summer terms, SFA will arrange temporary funding alternatives for the students.
- f. Scholarship refunds will be disbursed by Student Business Services up to ten days before the first class day by direct deposit. Refund checks not available for direct deposit will be mailed on the first class day.

#### 4. **Cancellation**

Scholarship awards may be cancelled only by the selection committee prior to the 20<sup>th</sup> class day of the semester. Departments will need to change the award status of the scholarship on the Scholarship Tracking System to "rejected" or "revoked." Status changes will be loaded into Banner, and cancelled funds will be removed from the student account and added back to the scholarship account's available funds.

#### 5. **Non-university Scholarships**

- a. Amounts awarded to scholarship recipients who have been selected and notified by some agency or organization outside the university will be administered through special procedures.
  - b. The agency's check for the scholarship, along with all pertinent information, will be forwarded to SFA. SFA will deposit the funds in a special agency account entitled "Miscellaneous Scholarships (non-recurring)."
  - c. A copy of the deposit will be sent to Accounts Receivable. All agency checks will be imaged into the student's electronic folder.
  - d. Miscellaneous scholarships will be entered into Banner by the Scholarship Office. Credit will be applied to the student's tuition charges in the same manner as institutional scholarships. If tuition and fees have been paid by the students, a net check payable to the student will be disbursed in accordance with procedures in section 3.f.
6. Quarterly, AS will review a report of scholarship fund balances. If a scholarship has a negative fund balance, the department will be asked to fund the negative amount or move award(s) to other

scholarship accounts. No scholarship account will be allowed to carry a negative balance at the end of the fiscal year. Email notification is sent to departments quarterly to alert them of any negative fund balances.

#### 7. **Employee Dependent Scholarships**

This section applies to eligible dependents of TTU and TTUHSC employees only. Please refer to OP 70.29 for tuition assistance available to employees.

The employee dependent scholarship is available for eligible dependents of TTU and TTUHSC employees. Online applications and eligibility details for dependents are available at <http://apps.scholarships.ttu.edu/EMPD/EmployeeDeptApplication.aspx>. Dependents must be eligible for regular admission, enrolled full time, be claimed as a tax dependent of a full benefits eligible TTU/TTUHSC employee who has been employed prior to the term being attended, and must remain in good academic standing. Students must apply annually. Awards are based on income earned by the endowment.

An employee dependent scholarship awarded for study at the undergraduate level is not included in taxable income and is applied directly to the student's tuition and fee account. If the scholarship is awarded for study at the graduate level, it is not exempt from taxation and will be paid through Payroll Services with applicable tax withholding, unless the dependent student is also employed as a teaching assistant or research assistant (IRC Section 117(d)).