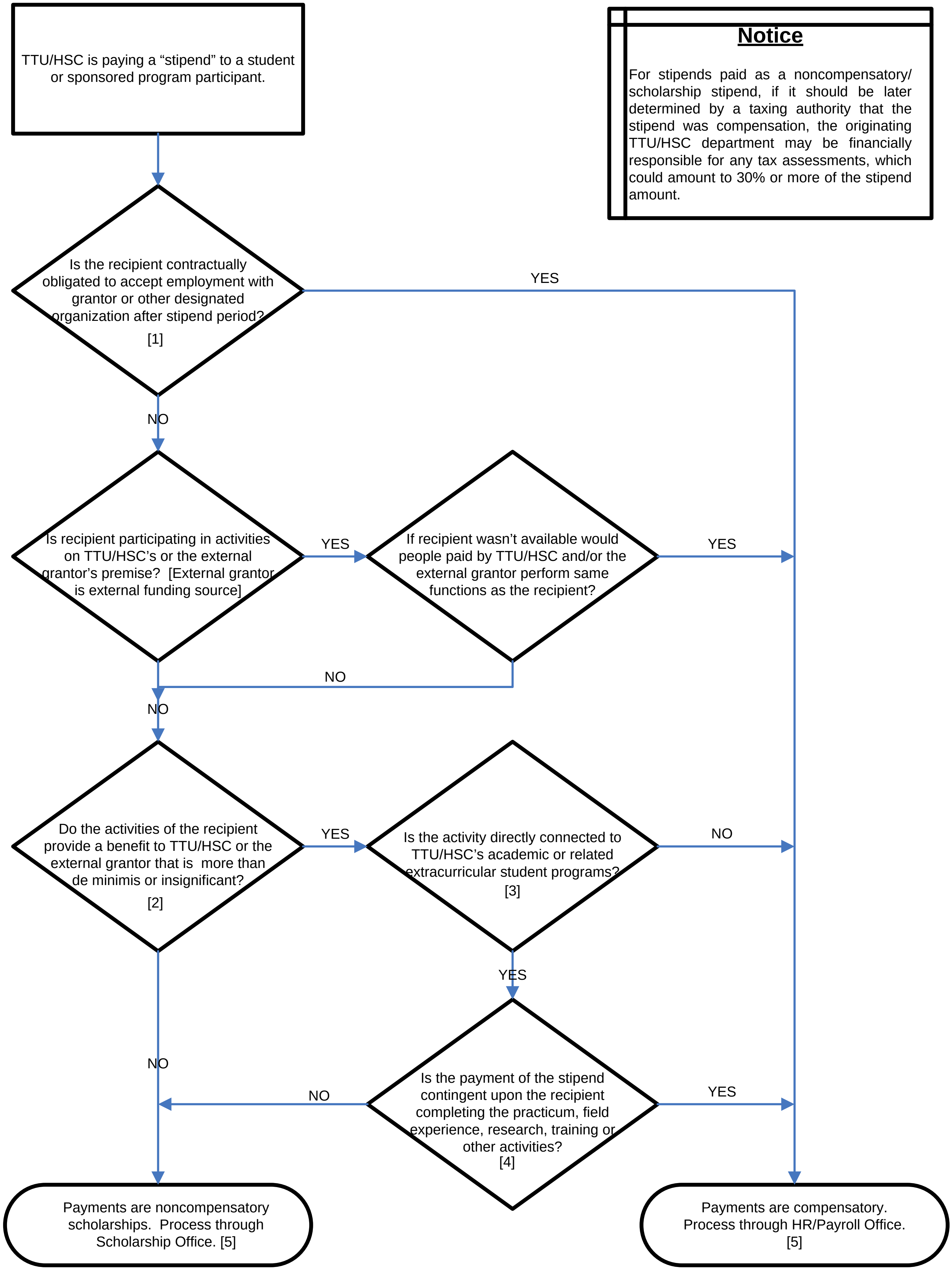
COMPENSATORY STIPEND VS. NONCOMPENSATORY/SCHOLARSHIP STIPEND GUIDELINES



COMPENSATORY STIPEND VS. NONCOMPENSATORY/SCHOLARSHIP STIPEND TEXT OUTLINE

Notice: For stipends paid as a noncompensatory/scholarship stipend, if it should be later determined by a taxing authority that the stipend was compensation, the originating TTU/HSC department may be financially responsible for any tax assessments, which could amount to 30% or more of the stipend amount.

- **Start:** TTU/HSC is paying a "stipend" to a student or sponsored program participant.
- **Step 1:** Is the recipient contractually obligated to accept employment with grantor or other designated organization after stipend period? [1]
    - **YES:** Payments are compensatory. Process through HR/Payroll Office. [5]
    - **NO:** Proceed to Step 2.
- **Step 2:** Is the recipient participating in activities on TTU/HSC's or the external grantor's premise? (External grantor is external funding source)
    - **YES:** If the recipient wasn't available, would people paid by TTU/HSC and/or the external grantor perform the same functions as the recipient?
        - **YES:** Payments are compensatory. Process through HR/Payroll Office. [5]
        - **NO:** Proceed to Step 3.
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- **Step 3:** Do the activities of the recipient provide a benefit to TTU/HSC or the external grantor that is more than de minimis or insignificant? [2]
    - **YES:** Is the activity directly connected to TTU/HSC's academic or related extracurricular student programs? [3]
        - **NO:** Payments are compensatory. Process through HR/Payroll Office. [5]
        - **YES:** Is the payment of the stipend contingent upon the recipient completing the practicum, field experience, research, training, or other activities? [4]
            - **YES:** Payments are compensatory. Process through HR/Payroll Office.
            - **NO:** Payments are noncompensatory scholarships. Process through Scholarship Office. [5]
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COMPENSATORY STIPEND VS. NONCOMPENSATORY/SCHOLARSHIP STIPEND FOOTNOTES

[1] A contractual provision requiring payback of amounts received in lieu of employment is a contractual obligation of employment.

[2] Benefits to the grantor or TTU/HSC would include the following:

- Working on a grant that has a deliverable to the grantor, e.g., research report.
- Performing a function that directly enhances the programs or activities of TTU/HSC or the grantor; and/or
- Participating in an activity that generates revenue for TTU/HSC or the grantor.

[3] An academic or related extracurricular student program is one in which scholarships are awarded as a standard practice at colleges and universities around the country, e.g., sports and music programs.

[4] A yes answer is where TTU/HSC can immediately withdraw or cancel the payment if the recipient discontinues participation in the activity after starting it. Conversely, a no answer would indicate that the payment will continue through the current semester or academic year even though the recipient does not participate in the activity.

[5] All income received by a student or participant is taxable income regardless of classification as compensatory stipend or noncompensatory/scholarship stipend. However, amounts classified as noncompensatory scholarships are eligible for potential exclusion from income under IRC §117 for amounts paid for tuition, required fees, books, supplies and equipment required for courses. For compensatory stipends, TTU/HSC has tax reporting and tax withholding responsibilities. For noncompensatory/scholarship stipends, TTU/HSC has tax reporting and tax withholding responsibilities only if the recipient is a nonresident alien for tax purposes.

Payment of “interns” should be classified as compensatory and processed through HR/Payroll Office.

These are provided as guidelines and each “stipend” payment depends upon the facts and circumstances of the situation. Please contact the Office of Tax Compliance & Reporting (742-3255) with any questions.