

Taxability and Reporting Issues of Educational Scholarships

The Council is not responsible for how recipients report Scholarships, and recipients should consult tax and financial aid specialists regarding their individual situations. The Council cannot assist them in this process.

For Students, scholarships given to students for the benefit of education expenses are not taxable. Page Two is an excerpt from the IRS Publication 970 regarding the use and taxability of Scholarships.

In most cases, because tuition, books and other qualified expenses are in excess of the amounts the Council will be awarding, the Scholarships will not create a taxable event for recipients.

Recipients must reduce the amount of Qualified Tuition Expenses by the amount of the Scholarship when claiming Educational Tax Credits.

Recipients may need to report Scholarship Award on their individual annual FASA forms for Financial Aid eligibility.

There are several ways the Council can issue Scholarships:

Issue check to both Student and College jointly. This will ensure monies be applied to the Student's account. There will be no taxable event to the student.

Issue check directly to the College as payment on student's account. There will be no taxable event to the student.

Issue check directly to the Student. In general, the reporting and taxability concerns are non issues if the money is used for qualified expenses (see below). In addition, this allows the student to use the award for books, which are qualified expenses. Recipients appreciate receiving Scholarship money paid directly to them.

Issue monies to through the College Foundation to be awarded with other Scholarships the student may be receiving. The College may include these amounts on the 1098-T Tuition Statement. As the Council does not control this process, I am not certain how the various College Foundations handle reporting.

In addition, the Council has no control of the recipient with regard to FASA reporting, nor are we responsible for this reporting.

With regard to reporting issues for the Council, 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 as long as the money is used by a degree candidate in an eligible institution for qualified expenses. Page Four is an excerpt of IRS tax code I.R.C. §§ 1441-1464 for reference. As the recipient would meet all the criteria, alien students studying here on educational visas would not be subject to tax or reporting requirements.

In conclusion, there are no reporting issues for the Council. There are no tax implications for the recipient if they meet the IRS qualifications. It will be the recipient's responsibility to report on their individual FASA (Financial Aid forms) receipt of this Scholarship.

Internal Revenue Service Publication 970 (2007) Tax Benefits for Education

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.

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.

If you qualify for other education benefits, you may have to reduce the amount of education expenses qualifying for a specific benefit by the tax-free amount.

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.

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.

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

The items below reflect the regulations under I.R.C. §§ 1441-1464 and related sections of the Internal Revenue Code that went into effect for all payments made on or after January 1, 2001.

- 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 I.R.C. 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 I.R.C. § 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 I.R.C. § 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.