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Student Payments Guide

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Purpose

This guide was designed to help various administrative and academic departments of University of Massachusetts (UMass, University) determine the most effective method of administering payments to students ensuring full compliance with the University's obligations with respect to the administration of federal financial aid funds and compliance with its tax reporting obligations.

This guide addresses types of payments made to UMass and non-UMass students and scholars, including scholarships, fellowships, research, prizes, compensation for services, honoraria, royalties, refunds and reimbursements, among others. Additionally, this guide defines which type of payments are taxable income to the student and which payments the University must report to the Internal Revenue Service (IRS).

This guide will assist UMass departments in identifying the type of payment being made to a student so the appropriate UMass system is selected to make the payment. The system will then manage the required reporting to the recipient and/or Internal Revenue Service (IRS.) This will ensure UMass meets all tax reporting requirements. Secondly, to assist departments in answering questions from students, this guide also provides information related to that required reporting.

The following three payment systems may be used when making a payment to a student:

- 1) Human Resources (HR) Payroll System - Compensation for services performed, employment
- 2) Student System - Awards to support a student's direct education and education-related expenses (generally scholarships/fellowships, grants), and when travel is not for UMass business
- 3) Accounts Payable - Reimbursement or pre-payment when a student travels on behalf of UMass (for University business), or for their own educational or developmental benefit, alone or as part of a group; non-student, and non-employee payments.

The rules and administrative processes set forth in this guide are subject to change and will be updated as needed to reflect such amendments.

Determining the student's relationship with UMass

When deciding which payment system to use to make a payment to a student, it is necessary to first determine whether the payment is related to the recipient's employment relationship with UMass. If it is determined that the payment is not related to the recipient's employment, then other payment systems should be considered.

The following should be considered when making that determination if the payment is related to the recipient's employment relationship with UMass:

- Is the payment related to services the student is providing in a student employment position?
- Was the student required to be an employee to receive the payment?
- Is the potential recipient pool limited to students who are employees?

If the questions are answered in the affirmative, the payment should be made to the student through the HR Payroll System. Please note this guidance applies to payments made to students; all payments to employees who are not students are generally paid through the HR Payroll System.

Tax Reporting

Reporting and taxation of student payments are governed by the Internal Revenue Code and Treasury Regulations and enforced by the Internal Revenue Service (IRS).

The university is not required to withhold income tax on scholarship payments. However, UMass may have Form 1098-T reporting requirements for scholarship/fellowship payments. In addition, the University is required to withhold and report income tax on nonqualified scholarship payments to nonresident on the Form 1042-S (See definitions for U.S. and Nonresident Alien below).

Even if UMass is not required to withhold taxes from a payment to a student, the payment may still be taxable to the student and may need to be reported on the student's income tax return. Generally, when scholarships/fellowships are used by the student to offset tuition, required course fees, textbooks or mandatory equipment as provided for under Internal Revenue Code (IRC) Section 117, the payments may be excluded from income. The student is responsible for tracking the payments received and the costs of tuition and other required educational fees, books, supplies, and equipment for purposes of identifying taxable income.

The student recipient may either be a U.S. Taxpayer or a nonresident alien for tax reporting purposes, herein after referred to as an NRA. The information UMass must provide to the student recipient and/or IRS is determined according to 1) the type of payment made, and 2) whether the recipient is a U.S. Taxpayer or an NRA. The treatment of payments to NRA students may be further impacted depending on whether the student is from a country that has entered into a tax treaty with the United States.

If payments are required to be reported by UMass for tax purposes, the payment system will determine whether to use a Form W-2, 1099 (NEC or MISC), 1098-T or 1042-S to report the payment.

- A Form W-2, Wage and Tax Statement, is used to report wages and/or withholding for an employee.
- A Form 1099-MISC, Miscellaneous Income, and Form 1099-NEC, Non-employee Compensation, are used to report certain payments when the payments equal or exceed a specified threshold, usually \$600 during a calendar year.
- A Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, is used to report payments and any withholding to an NRA.
- Reporting may be required on Form 1098-T, Tuition Statement. Please visit the following page for additional information regarding the [Form 1098-T](#)

Definitions and Payment Examples

U.S. Taxpayer Student

A U.S. Taxpayer Student is an individual who is a citizen of the U.S. or a resident alien. A resident alien, for U.S. tax purposes, is a non-U.S. citizen who has passed either the green card test or the substantial presence test.

The university is not required to withhold income on nonqualified scholarship payment to U.S. Persons (U.S. Citizens, permanent residents, and resident aliens).

Nonresident Alien (NRA) Student

For U.S. tax purposes, a nonresident alien is a non-U.S. citizen who has not passed either the green card test or the substantial presence test.

The university must withhold taxes at 14% for non-qualified scholarship amounts to nonresident aliens under an F, J, M, or Q immigrations status. For all other nonresident aliens, tax will be withheld at 30% (or lower treaty rate). Nonresident aliens receiving non-qualified scholarships are required to complete a Sprintax Calculus record and submit all supporting forms. Sprintax Calculus is a secure online tax compliance system designed to make tax residency, withholding, and income tax treaty determinations.

The scholarship or fellowship recipient who is claiming a treaty exemption must provide UMass with his or her Social Security Number (SSN) or Individual Taxpayer Identification Number (TIN), or UMass cannot allow the treaty exemption.

Nonresident alien students must be paid through the system that will result in tax compliance to avoid the risk of unpaid taxes, tax filing issues for the student, and potential loss of visa status due to noncompliance with federal laws.

It is the department's responsibility to check the student's status with respective campus international/immigration departments to determine if the payment recipient is an international student.

Financial Aid

Financial aid is any grant, scholarship, fellowship, tuition credit, loan, or part-time employment offered to help a student pay for education expenses at the University. The amount of financial aid that a student receives is determined through federal, state, and institutional guidelines (see appendix for details).

Tax Implications & Reporting

Tax implications for financial aid largely depends on the nature of the payment. Please refer to the different payment types in this section for details on each type of financial aid.

Tuition Credits

A tuition credit (formerly a tuition waiver) is an award that will lessen the amount of tuition and fees.

Tax Implications & Reporting

Tuition reduction below the graduate level for the University's employee, the employee's spouse or dependent is generally excludable from income. Graduate level tuition credits are not excludable from income unless the person is a graduate student working as a research or teaching assistant.

Tuition credits are posted to a student's account to offset the cost of tuition. Please contact the campus Financial Aid department or Human Resources (if the student is an employee) for questions.

Loans

A loan is money a student borrows and must pay back with interest. Student loans, to help pay for a student's education, can come from the federal government, from private sources such as a bank or financial institution, or from other organizations.

Tax Implications & Reporting

The receipt of loan proceeds does not result in taxable income as the loan is expected to be repaid. However, if a student loan is cancelled, forgiven, or discharged for less than the student must pay, that amount is income at the time it is cancelled/forgiven/discharged. Student loan forgiveness can be nontaxable in certain circumstances. Students will need to work with their tax advisors.

Service Payments

Wages to Student Employee for Services:

Payments for services performed by students pursuant to an employer/employee relationship with UMass are wages. Wages include research grant payments to a student either from a grant administered by the grant's offices across the UMass campuses, or from other funds, when the payment is for services rendered as an employee. Wages are always paid through the HR Payroll System. Wages are reported to the employee and the IRS as W-2 income for U.S. Taxpayers and on either a 1042-S or W-2 for NRA students, depending on treaty applicability.

If a payment by a UMass department to a student employee does not relate to an employment relationship, consider other payment types to identify the appropriate category for the non-wage payment.

Tax Implication & Reporting

a. Federal and State Income Tax:

Employment compensation/salary/wages is taxed at marginal graduated rates, meaning income earned over certain levels set by the U.S. tax authorities is

taxed at progressively higher rates. All student employees should complete the Form W-4 and give it to the campus Human Resources Department, so the University can withhold the correct income tax from the employee's pay. Special withholding rules apply for nonresident aliens completing the Form W-4.

If a tax treaty between the United States and a foreign student's tax residence country provides an exemption from, or a reduced rate of, withholding for compensation, the student should notify the University of his/her foreign status to claim the benefits of the treaty. Foreign students do this by completing a Sprintax Calculus record and submitting all supporting documents for review.

b. FICA Tax

The University must withhold the correct amount of FICA tax from a student employee's pay. FICA tax is applicable to compensation/salary/wages made by the University to both U.S. persons (U.S. citizens, permanent residents, and resident aliens) and nonresident aliens, unless one of the exemptions applies.

1) NRA FICA Exception

A nonresident alien for U.S. tax purposes, present in the U.S. under an F, J, M, or Q immigration status, and performing services in accordance with the primary purpose of the visa's issuance (i.e., J-1 or F-1). If the individual meets all the above requirements, then the individual is exempt from FICA.

2) Student FICA Exception

The student FICA exception generally provides that a student who works for the school at which he/she is enrolled and regularly attends classes is exempt from FICA tax. The employment must be incidental to and for pursuing a course of study at the employer institution. Therefore, full-time employment does not qualify for the student FICA exception. However, a student may work full-time during school vacations and may use the student FICA exemption for up to 5 weeks without having to be enrolled in part time status.

The University is required to report compensation paid, in the absence of tax treaty benefits, along with the requisite tax withholding, on the Form W-2. For foreign students, if compensation is exempt from tax withholding at the time of payment due to an income tax treaty exemption, the University is required to report the payment on the Form 1042-S.

Examples of Wages to Student Employee for Services:

- **Example 1A – Hourly student employee:** A U.S. Taxpayer student works as a parking attendant on a part-time hourly basis. The student is paid through the HR Payroll System. The student and the IRS receive a W-2.
- **Example 1B – Teaching Assistant:** A NRA graduate student works as a teaching assistant as part of a doctoral program. The payments the student receives are wages, paid through the HR Payroll System and reported to the recipient and IRS on a 1042-S or a W-2, depending on treaty applicability.

- **Example 1C – Student employee paid with grant funds:** A U.S. Taxpayer student employee performs research services required under a UMass sponsored grant contract with a third party. The payment is for services rendered as an employee. The student is paid through the HR Payroll System. The student and the IRS receive a W-2.
- **Example 1D – Internship at UMass:** A U.S. Taxpayer student works as an intern in a UMass department. The student is working under the direction and control of a UMass faculty member. The student is paid on an hourly basis and the payment is considered wages. The student and the IRS receive a W-2.
- **Example 1E – Student employee working on faculty research:** A UMass faculty member is awarded an internal grant to further the faculty member's research. The grant money is used to hire a U.S. Taxpayer student in an employment appointment to work on the faculty member's research project. The student is paid wages that are reported on a W-2 to the student and the IRS.
- **Example 1F – GSBS Students:** A student at the Graduate School of Biomedical Sciences – UMMS is paid compensation as part of their graduate program. The payments the student receives are wages, paid through the HR Payroll System and reported to the recipient and IRS on a 1042-S or a W-2, depending on treaty applicability.
- **Example 1G – Notetakers:** Some campuses retain students to take classroom notes to assist other students who are disabled or for some other reason are not able to take their own notes. The student is paid wages that are reported on a W-2 to the student and the IRS.
- **Example 1H – Payments towards health insurance:** The student is required to be an employee to receive this payment. The payment is given due to their GEO/employment status, and these payments are considered compensation (taxable fringe benefit) and must be run through Payroll.

If the payment is given to the student because of their student status, see **Example 7D – Health insurance premiums**

Also see **Example 8C – Internship with Third Party**; and **Example 9A – Resident Hall Assistant**

Payment to Non-Employee Student for Services:

Payments to students performing services are paid through Accounts Payable when there is no employer/employee relationship, but rather the student is working as an approved independent contractor. For a U.S. Taxpayer student, if the payments equal or exceed \$600, they are reported to the individual and the IRS as 1099 income. All payments to NRA students are reported on a 1042-S, regardless of the amount.

The department must complete an [HR-5 Determination of Independent Contractor Status](#) form and provide it as a supporting document when processing the service payment.

Examples of Wages to Non-Employee Student for Services:

- **Example 2A – Non-employee services:** A U.S. Taxpayer student is paid to perform piano music at an evening reception held on campus. The student is not an employee and should be paid through Accounts Payable, with the income reported to the student and IRS if it is \$600 or more.
- **Example 2B – Employee providing nonrelated services:** A U.S. Taxpayer student is paid to perform piano music at an evening reception held on campus. The student is employed by UMass as a parking attendant. Because the piano services are not related to the student's employer/employee relationship, the student is paid for the piano services through Accounts Payable with the income reported to the student and IRS if it is \$600 or more.
- **Example 2C – Payments to Marching Band members:** A group of U.S. Taxpayer Marching Band members play at events during winter break, and each receive a \$50 payment as compensation. Some of the students are employees in other unrelated student positions at UMass and some students are not employees. The payments should be paid through Accounts Payable for all the students since the payment does not relate to any employment relationship they may have with UMass. UMass has no reporting requirements because the amount is less than \$600, although the income may be taxable for the student.

Honorarium

A payment intended to show appreciation for a student's involvement in, and contribution to, a UMass event is an honorarium. A UMass event could be a symposium, conference, workshop, seminar, or other activity. Honoraria are deemed compensatory in nature and the appropriate payment system is dependent on whether the student's contribution being honored relates to an employment relationship with UMass. An honorarium paid to a student for performing employment related services is paid through the HR Payroll System and reported on a W-2 for a U.S. Taxpayer student and on either a 1042-S or W-2 for an NRA student, depending on treaty applicability. Honorarium payments relating to student employment are in addition to hourly wages. An honorarium that does not relate to a student employment relationship is paid through Accounts Payable. Honoraria are reported for the non-employment work to the student and the IRS as 1099 income for U.S. Taxpayer students if the payment is \$600 or more and as 1042-S income for NRA students, regardless of the amount.

Examples:

- **Example 3A – Non-employee honorarium:** A nonemployee U.S. Taxpayer student collaborates with faculty and other students to plan a UMass conference. The department pays the student \$50 to show appreciation for the student's contribution to the UMass event. The payment is made through Accounts Payable, and no reporting is required by UMass to the IRS because the amount is less than \$600, but the amount may be taxable income to the student.
- **Example 3B – Employee honorarium, employment related:** An employee U.S. Taxpayer student collaborates with faculty and other students to plan a UMass

conference sponsored by the department in which the student works. The department pays the student \$20 in addition to the student's hourly wage. The \$20 honorarium payment is paid through the HR Payroll System and is included on the student's W-2 income and reported to the IRS.

- **Example 3C – Employee honorarium, not employment related:** A U.S. Taxpayer student is an employee in the library. The student agrees to speak at a student event to share personal experiences about living in a residence hall on campus. The student receives an honorarium of \$25 for speaking at the event. Because the event has no connection to the student's employment relationship with UMass, the payment is considered paid to a non-employee and is made through Accounts Payable. There are no reporting requirements for UMass as the payment is less than \$600, though the amount may be taxable income to the student.

Human Subject

A payment made to a student about whom an investigator (whether professional or student) conducting research obtains data, through intervention or interaction with the individual or by gathering private information about the individual, is a human subject payment. The human subject payment is generally made to encourage the student to participate in providing information to the investigator. The value of the payment is not commensurate with the effort the student expends and is not considered a payment for services. Human subject payments are reportable as 1099 income to U.S. Taxpayer Students when \$600 or more, and as 1042-S income for NRA students, regardless of the amount.

Examples:

- **Example 4A – Human subject:** A U.S. Taxpayer student agrees to answer a questionnaire after viewing a series of photos depicting interactions between various individuals. The activity is spread over three days and takes from 6 to 12 hours. The student receives a \$50 prepaid debit card for participating. Because the total received does not equal or exceed \$600, there will be no reporting to the student or the IRS, although the amount may be taxable income to the student.
- **Example 4B – Human subject:** An NRA student participates in a six-month smoking cessation program and receives a one-time payment of \$800 at the end of the program as an incentive for continuing to provide information throughout the study. The payment is made through Accounts Payable and reported to the student and the IRS on a 1042-S.
- **See also Example 5D – below**

Prize or Award

A payment or other consideration, including tangible personal property or gift cards, received because of entering a contest is a prize. However, applying for a scholarship or fellowship that is awarded based on scholastic achievement is treated as a

scholarship/fellowship rather than a prize (please refer to the **Scholarship/ Fellowship (S/F) Payments** section).

A cash prize payment to a non-UMass student is made through Accounts Payable and is reported to a non-UMass U.S. Taxpayer student and the IRS as 1099 income if it is \$600 or more. It is reported to an NRA student on a 1042-S regardless of the amount.

For purposes of this prize section, "UMass student" means a recipient registered for class(es) at UMass at the time the payment is made.

Gift cards and prepaid debit cards are methods of making one of the types of payments and are equivalent to cash. A payment made to a student in the form of a gift card or prepaid debit card is treated as if the payment is made in cash.

Tax Implications & Reporting

A prize or award is includable in income (taxable). Nonresident aliens are subject to 30% tax withholding. Nonresident aliens are required to complete a Sprintax Calculus record and submit all supporting documents.

The University is required to report prizes or awards to U.S. persons (U.S. citizens, permanent residents, and resident aliens) on the Form 1099-MISC if the amount is greater than \$600. For nonresident aliens, the University is required to report the payment along with the requisite tax withholding on the Form 1042-S, regardless of the amount.

Examples:

Example 5A – Cash prize: A U.S. Taxpayer non-UMass student enters several photos in a contest and wins a prize of \$600. The payment is made through Accounts Payable and reported to the non-UMass Taxpayer student and the IRS as 1099 income since the threshold of \$600 has been met.

Example 5B – Property prize: An NRA student of UMass creates and enters a video in a contest, and wins a new computer valued at \$500. The value should be reported to the NRA student and the IRS on a 1042-S.

Example 5C – Entrepreneur prize: A U.S. Taxpayer UMass student enters an entrepreneur contest held by a UMass department. Student contestants submit a description of a start-up business developed by the student. Winners are awarded \$2,000 "grants" to support further work on the projects. The grant must be reported on a Form 1099 to the student and the IRS. Although this award may be used for furthering the business of the start-up (which could be a charitable organization), the award is made to the student. The award can be used in anyway the recipient pleases.

Example 5D – Prepaid card award: A department provides \$25 prepaid debit cards to U.S. Taxpayer students filling the role of human subjects. Some of the student recipients of the prepaid debit cards are employees of other departments on campus, but the employment is not related to the human subject roles. Pursuant to the Human Subject

Payment section above, the prepaid debit cards can be provided to the students without any notification of the award to the IRS or student because the dollar amount is less than \$600.

Travel/Expense Reimbursement for University Business

The purpose of a student's travel impacts how funds should be provided and accounted for.

A travel reimbursement or meal per diem payment made to a student traveling on behalf of UMass is made under UMass's Accountable Plan. Similarly, an expense reimbursement made to a student that incurs expenses on behalf of UMass is also made under UMass's Accountable Plan. The department making the payment must determine whether the student is incurring the expenses primarily for UMass business or primarily for the benefit of the student. When the primary beneficiary of the expense is UMass, the payment is treated as a UMass business expense. (When the primary purpose of the payment is to support a learning opportunity of the student, it is treated as a fellowship). A business expense must be substantiated through receipts or by documenting the specifics of travel for per diem payments. Payments made under the Accountable Plan are not taxable to the recipient and are not reported to the IRS. UMass's Accountable Plan is used to make reimbursements and/or other expense allowance arrangements that meet IRS requirements related to business-connection, expense substantiation, and the timely return of amounts in excess of substantiated expenses.

Travel payments made under the Accountable Plan rules must follow the appropriate procedures to process the payment. University Travelers must obtain prior approval/pre-travel authorization in Concur Request prior to booking travel. For students, access is only granted on the Amherst, Chan, and Lowell campuses for students who are not also student employees. The student needs to be an active employee with an Employee ID (EMPLID) to have access to the expense module in Concur. If the student does not have an EMPLID, they won't have access to the expense module.

For more information on Travel & Expense (T&E) that falls under the Accountable Plan rules, please refer to the [Travel & Expense Program](#) webpage. More information about Pre-Travel Authorization is available on the [Pre-Travel Authorization \(Required Before Booking Travel\)](#) page.

Additional Concur resources are available in the [Concur Resource Library: Travel and Expense Reporting](#) under the T&E webpage.

Tax Implications & Reporting

A determination must be made as to whether a student's activities which incur travel expenses are for the "primary benefit" of the university or for the "primary purpose" of furthering the student's education and training (scholarship or fellowship).

Travel payments for the benefit of a student's educational activities are not treated as compensation for services rendered because the student is not providing any services. Rather, the student is receiving a fellowship. Payments associated with travel are taxable unless an arrangement meets the business connection requirement (a service connection). Therefore, the travel reimbursement that is considered fellowship is not excludable from income and must be taxed accordingly as a non-service fellowship.

Travel reimbursement may be nontaxable to a student. The student must have rendered services for the benefit of the University; generally, the student would be considered as an employee or independent contractor of the University. The student must be on payroll or paid for services as an independent contractor. The student may also volunteer their services. However, the paying department will also need a volunteer letter acknowledging the donation of valuable services to the university (e.g., services would normally be paid for, but the student has agreed to volunteer his/her services, he/she will be just be reimbursed for travel expenses.)

Student travel reimbursements are of a complex nature and determinations may need to be made on an individual basis.

If the travel reimbursement is, by nature, a fellowship, the University must follow rules for fellowships reporting (see scholarship/fellowship section).

If the travel reimbursement is associated with the services performed in connection with the travel, the University is not required to report the payment to the IRS.

Examples:

- **Example 6A – Representing UMass at conference - A student is attending a conference to represent UMass, presenting a faculty member's research or joint research with or on the department's behalf (UMass is primary beneficiary);** A student participating in a UMass graduate program travels to a conference out-of-state. The department has asked the student to represent UMass at the conference by attending and presenting a poster at the conference. The student is reimbursed for travel costs through Accounts Payable after presenting receipts. The department could also elect to provide a meal reimbursement based on the per diem rate if the business purpose and travel dates are substantiated. There is no reporting to the student or the IRS for this reimbursement or per diem payment.
- **Example 6B – Reimbursement for purchase:** A UMass student is asked to buy refreshments from a restaurant to serve at a recognition event. The student pays \$65 cash for the purchase and obtains a receipt from the restaurant. The student is reimbursed through AP as a part of UMass's Accountable Plan and there is no reporting for this transaction.
- **Example 6C – Reimbursement for lunch expense:** Under UMass faculty direction, a UMass student is asked by a UMass staff member to take a potential graduate student visiting UMass to lunch. This is a UMass business expense, and a

reimbursement of the substantiated expense should be made to the student through the Accountable Plan. There is no required reporting for this transaction.

- **Example 6D – Expense reimbursement or meal per diem for UMass benefit:** A student is voluntarily representing the University by invitation or in an extra-curricular competition, such as in an arts performance, business case competitions, moot court competitions, etc. Since the student is representing UMass, this payment is processed through AP and is not reportable to the IRS because it falls under the Accountable Plan.

Also, see [Example 8E](#) for reimbursement related to a student traveling on personal business.

Scholarship/ Fellowship (S/F) Payments (non-service) Form 1098-T

UMass produces a Form 1098-T each year for all U.S. residents enrolled as regular students. UMass does not produce a Form 1098-T for non-resident aliens, unless specifically requested. Box 5 on the form records all scholarships, grants, waivers, and other aid considered towards the Cost of Attendance (COA) and not required to be paid back. Failure to award or account for institutional funds for students in the student system puts the university at risk of violating federal financial aid and IRS rules, and could also jeopardize a student's ability to properly claim tax benefits under IRS rules.

Federal courts have consistently held that "scholarships" are relatively disinterested, "no-strings" educational grants, with no requirement of any substantial services from the recipients. Any amount paid or allowed to, or on behalf of, an individual to enable him/her to pursue studies or research primarily to further the student's education and training and provided by the University for such purpose does not represent compensation or payment for services. Merely requiring the recipient to provide periodic progress reports to the University or the fact that the research or study results may provide an incidental benefit to the University is not enough to treat the payment as compensation for services. Such amounts are treated as scholarships, which are not subject to tax withholdings, but may be reported to the IRS on Form 1098-T.

Tax Implications & Reporting

Definitions:

- A scholarship is a value provided (cash or noncash) for a student to attend school ("to aid in the pursuit of studies"). The student must be "at an educational organization" to get a scholarship.
- A fellowship is a value provided (cash or noncash) to someone who is not necessarily attending school at an educational organization but requires living support for study or research.

Scholarships and Fellowships are either qualified or non-qualified.

Qualified Scholarships

The term “qualified scholarship” means any amount was used for qualified tuition and related expense (QTRE). QTRE is tuition and fees required for the enrollment or attendance of a student for courses of instruction at an eligible educational institution. The amounts representing “qualified scholarships” are excludable from income (nontaxable).

Non-qualified Scholarships

Qualified tuition and related expense (QTRE) do not include the costs of room and board, insurance, medical expenses (including student health fees), transportation, and similar personal, living, or family expenses, regardless of whether the fee must be paid to the eligible educational institution for the enrollment or attendance of the student at the institution. Any amounts representing “non-qualified scholarships” are includable in income (taxable).

A scholarship is excluded from taxable income only if the student is a candidate for a degree at an eligible educational institution and to the extent used to pay QTRE.

Any amounts received by a non-degree candidate are taxable scholarships/fellowships even if the amount pays for otherwise qualified educational expenses.

Scholarships will be reported by the University to the IRS and to the student on IRS Form 1098-T, Tuition statement.

Scholarships/fellowships (S/F) must be granted without a service or working requirements. If the S/F requires that the recipient perform services (past, present, or future services), then this would be considered wages, and not S/F, and reported through Payroll.

A non-service payment paid under the National Research Service Award (NRSA) program sponsored by the National Institute of Health (NIH), the National Health Service Corps Scholarship Program, or the Armed Forces Health Professions Scholarship and Financial Assistance Program are considered scholarship/fellowship payments that are taxable income to the extent they are not used for qualified educational expenses. There is 1098-T reporting requirements to the IRS for a U.S. Taxpayer students, if the cost is included in COA, and reporting for NRA students is made on a 1042-S.

Most payments of scholarships/fellowships to UMass students who are registered for classes are made through the Student System. A second option for scholarship/fellowship payments made to UMass students is the HR Payroll system. Payments made through HR Payroll are generally larger dollar scholarships/fellowships that a UMass department does not want to make as a lump-sum payment. Payments made through HR Payroll are made over a period of time following the payroll schedule rather than as lump sum payments.

If the scholarship/fellowship payment is made to a non-UMass student, the payment is made through Accounts Payable.

Examples:

- **Example 7A – Graduate student:** A U.S. Taxpayer student is accepted into a UMass graduate program that will require several years of study. The student will receive an annual non-service payment of \$24,000 for living expenses. The student will not perform any services in exchange for the scholarship/fellowship payment. There are 1098-T reporting requirements to the IRS for a U.S. Taxpayer students, if the cost is included in COA, and reporting for a NRA student is made on a 1042-S.

For researchers, see **Research Payments** section.

- **Qualified Tuition and Related Expense (QTRE) Non-Taxable:** A degree-seeking student is awarded an educational grant to cover the cost of tuition, fees and other typical expenses of enrollment related to the student's area of study.
- **Non-qualified Tuition and Related Expense (Non-QTRE) Taxable:** A student is provided scholarship for room and board, transportation, living, personal and family expenses.
- **Example 7B – Sports team manager:** A U.S. Taxpayer student applies for a sports team manager opportunity and is chosen to be a team manager. The team manager learns about team management, fills various team manager roles, travels with the team and is eligible to be awarded a "Varsity" letter for outstanding participation. A scholarship for \$1,500 is awarded to the student and paid through the Student System. The scholarship is reported to the IRS on Form 1098-T and it may be taxable for the student.
- **Example 7C – Internship with third party:** A business that is not related to UMass hires a UMass student for an internship with the business. The student performs services for the business and the business pays the student fair market value wages and reports the wages on a W-2. In addition, UMass has awarded a non-service scholarship to the student to help defray costs associated with the internship. The student will not perform any services for UMass, and the payment from UMass is considered a scholarship/fellowship that is paid through the Student System. The scholarship is reported to the IRS on Form 1098-T and it may be taxable for the student. Sometimes internships are structured to earn class credit and tuition is charged for the credit. If that is the case, it is possible that the scholarship/fellowship from UMass will be used to pay for a qualified educational expense, and consequently will not be subject to tax. However, the student will need to determine whether the scholarship/fellowship payment is subject to tax based on the student's specific facts and circumstances.
- **Example 7D – Health insurance premiums:** Payments of health insurance premiums by UMass for graduate students that are not eligible for insurance as employees are considered scholarship/fellowship payments. The payments are not made to the student but are paid to a UMass health plan. These must be reported to the IRS for a

U.S. Taxpayer student on Form 1098-T, and the payments may be taxable income for the student. For an NRA student, the payment is reported on a 1042-S to the student and the IRS.

If the payment is given to the student because they are an employee, see **Example 1H – Payments towards health insurance**

- **Example 7E – Travel allowance/reimbursement for student's personal business:** A student participating in a UMass graduate program travels to a conference out-of-state. Although the student will not be presenting at the conference, UMass graduate program agrees to pay \$500 for travel costs so the student is able to experience a conference. This payment is a fellowship payment because the student is not traveling to represent UMass, but primarily to further the student's scholarly education. The payment is made through the Student System for a U.S. Taxpayer student and if cost is included in COA, it will be reported on a 1098-T. If the student is an NRA, the payment is reported on a 1042-S. For students traveling on UMass business, see [Example 6A](#)
- **Example 7F – Award from NCAA Student Athlete Opportunity Fund:** An eligible U.S. Taxpayer student-athlete receives a reimbursement for clothing and shoe items. The student is paid through the Student System. The payment is made through the Student System for a U.S. Taxpayer student and if it is included in COA, the cost will be reported on a 1098-T. If the student is an NRA, the payment is reported on a 1042-S.
- **Example 7G – Application fees for non-UMass student:** A UMass campus wants to assist a potential U.S. Taxpayer student by awarding a scholarship to the student to cover fees that must be submitted with the individual's application to UMass. Because the individual is not yet a student, the campus could waive the fee; if not, the payment is made through Accounts Payable. There is no reporting to the student or the IRS by UMass, although the payment may be subject to tax for the student.
- **Example 7H – Reward when no contest entered:** A U.S. Taxpayer student has completed a paper as part of a course requirement. The instructors that teach the course review all required papers and select one student to receive a \$150 reward for the best paper written by all students enrolled in the class that semester. The student does not enter a contest, as the student's paper is automatically reviewed by the instructors. The payment is made through the Student System for a U.S. Taxpayer student and if the cost is included in COA, it will be reported on a 1098-T. If the student is an NRA, the payment is reported on a 1042-S. **See 'Prizes and Awards' section for prize treatment when student enters a contest.**
- **Example 7I - Learner Emergency Assistance Fund (LEAF) for students:** LEAF is a UMMS-sponsored emergency fund launched in 2019 to serve as a source of financial relief for UMMS learners (full-time, degree seeking students at UMMS and residents/fellows in UMMS GME training programs) who have encountered hardship from sudden, unexpected, time-limited expenses. To request a LEAF payment for a student a one-page request form is submitted by the student and approved by the

Committee. The payment will be made through payroll for GSBS and GME residents. The payment is made through the Student System for a U.S. Taxpayer student and if it is included in COA, it will be reported on a 1098-T for SOM and GSN students. If the student is an NRA, the payment is reported on a 1042-S. The recipient should consult with a tax advisor to determine the tax implications.

Research Payments

Research as an Undergraduate (REU) Program (participant payments). This includes Summer Undergraduate Research Programs (SURP).

A payment to an individual who is participating in a UMass training program/symposia/seminar as a learner of presented information is a participant payment. The program could be of limited duration, such as a two-week program during the summer, or over a semester or school year. A participant payment is a type of fellowship; it is named as a separate category in this guide to match the language used in some grants that allow grant funds to be used for participant payments. Participant payments share many of the attributes of scholarship or fellowship payments and are subject to similar tax treatment. This payment cannot be for services rendered; it is non-compensatory.

The participant does not need to be enrolled as a student at UMass to receive a participant payment. However, to receive the participant payment through Student System, the student must be currently registered in a for- credit course. A second option for participant payments made to UMass students is the HR Payroll system. Payments made through HR Payroll are generally larger dollar payments that a UMass department does not want to make as a lump-sum payment. Payments made via the HR Payroll are made over a period of time following the payroll schedule rather than as lump sum payments. Participant payments for non-UMass individuals are made through Accounts Payable. For U.S. Taxpayer students, UMass may need to report participant payments on Form 1098-T, and the payments may be subject to income tax on the individual's tax return. Participant payments to NRA students are reported on a 1042-S.

Examples:

- **Example 8A – UMass student summer REU:** A UMass U.S. Taxpayer student registered for class, participates in a two-month summer Research Experience for Undergraduates (REU) program. No services are performed. The student receives \$2,000 to be used by the student for support while participating in the program. The participant payment is made through Student System. The payment may be taxable to the student, and UMass may also have a reporting requirement on form 1098-T.
- **Example 8B – Non-UMass student summer learning:** A non-UMass NRA student participates in a 3-week summer learning program. No services are performed. The non-UMass NRA student receives \$750 as a participant payment. The payment is made through Accounts Payable. The payment is reported on a 1042-S to the student and the IRS.

- **Example 8C – Non-UMass student:** A local high school teacher that is not a UMass student participates in a 3-week summer learning program. The teacher is a U.S. Taxpayer for tax purposes and does not perform any services. The teacher receives \$750 as a participant payment. The payment is made through Accounts Payable and there are no reporting requirements to the student or IRS by UMass, although the payment may be taxable income to the individual.
- **Example 8D – UMass student calendar year REU:** A U.S. Taxpayer student of UMass participates in a learning experience during the entire calendar year. The student is registered for classes in spring and fall semesters. The participant payment is made through Student System. The payment may be taxable, and UMass may have 1098-T reporting requirements.

Student Leaders and Other Volunteers

Definition:

Student leaders are generally students interested in pursuing an activity to further their learning experiences in developing leadership skills. Students filling leadership roles such as resident advisors and community advisors that have an HR job classification may be considered employees of UMass for IRS purposes but not for Fair Labor Standards Act (FLSA) purposes. Students filling leadership roles such as student union leaders, orientation student leaders, or other volunteers that do not fall within a job classification are considered volunteers. Payment amounts for volunteers are often based on the students' unreimbursed expenses related to the responsibilities of the leadership positions, as well as the duration of their commitment and any travel that will be required. In these situations, the students are not paid based on the quantity of what they do or on an hourly or salaried basis, but rather the payment is intended to encourage the volunteer student to play a leadership role among other student volunteers. For these student leader roles, the payments are made through the HR Payroll System for HR job classifications and through Accounts Payable for volunteers.

Volunteer

The Accountable Plan is only allowable when the person performs services for the employer (Reg Sec 1.132-1(b) contains who can be an "employee" for reimbursements or benefit provisions). If the speaker performed services, then the IRS requires that s/he be paid for those services. To avoid this, the individual must have an invitation letter or accepted contract indicating that no honorarium or compensatory payment is available or offered. The letter or contract should acknowledge the donation of valuable services and list or enumerate any travel costs/benefits that will be provided by UMass. Once the individual has a non-compensatory agreement to perform services, and an agreement regarding travel expenses, then UMass can provide meals, lodging and transportation (travel) tax free to the NRA visitor or on the NRA's behalf. No withholding required.

Examples:

- **Example 9A – Resident Hall/Community Advisor:** A Resident Hall/Community Assistant Advisor (Advisor) assists students in acclimating to UMass environment. The Advisor is expected to intermingle with students in the dorm, mentor students in academic pursuits and socialize with them to increase success at UMass. UMass requires the Advisor to live in the residence hall and provides room and board as part of the Advisor's appointment. The Advisor has a job classification and is considered an employee from the tax perspective but is not an employee from the FLSA perspective. There are no reporting requirements to the IRS or student for the room and board provided to the student because of a specific exclusion in the IRC that applies to these facts (Section 119). The advisor will receive a W-2 for wages.
- **Example 9B – Resident Hall/Community Advisor with cash payment:** A Resident Hall/Community Assistant Advisor (Advisor) works to create positive learning communities for students living in University residence apartment communities. The Advisor is required to live in University housing within an assigned student community. The Advisor also receives a debit card to cover meals. The Advisor is considered an employee from the tax perspective but is not an employee from the FLSA perspective. The in-kind value of the room is not reportable to the IRS or to the student because of a specific exclusion in the IRC that applies to these facts. The cash value of the debit card to cover meals is reportable as W-2 income.
- **Example 9C – Student volunteer:** A student participates as chair of a volunteer committee. The chair of the committee is responsible for recruiting committee members, scheduling meetings, and preparing agendas. The payments made to the student chair volunteer are not intended to be commensurate with the work performed by the student. This nominal amount is paid through Accounts Payable. Even if the volunteer is employed in another unrelated area of UMass and receiving wages, the payment for this volunteer role should be made through Accounts Payable and may be taxable income to the student. If the payment is \$600 or more, it will be reported on a Form 1099. This type of payment does not impact financial aid packages.

Royalty

Definition:

Students, particularly graduate students, may be eligible to receive royalty payments resulting from the development and marketing of intellectual property rights.

Overview: Student Payments and Tax Reporting

- Refunds are processed through the system that the student used to pay for the item.
- Please refer to the **Definitions and Payment Examples** section for more details on each payment type listed in the below tables.

A. Scholarship/Fellowship (S/F) Payments

Payment Type	U.S. Taxpayer Student		Nonresident Alien Student	
	Payment System(s)	Reporting	Payment System(s)	Reporting
Graduate student non-service payment	Student System	1098-T If COA	HR Payroll	1042-S
Travel allowance/reimbursement for student's personal business	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S
Reward ¹ when no contest entered (UMass Student)	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S
Reward when no contest entered (non-UMass Student) ²	Accounts Payable (UMASS Vendor)	None	Accounts Payable (UMASS Vendor)	1042-S
Sports team manager	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S
Internship with third party	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S
Award from NCAA Student Athlete Opportunity Fund	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S
Application fees for non-UMass student	Accounts Payable (UMASS Vendor)	None	Accounts Payable (UMASS Vendor)	1042-S
Learner Emergency Assistance Fund (LEAF) for students	Student System	1098-T If COA	Accounts Payable (UMASS Vendor)	1042-S

¹ A Reward that falls under Scholarship/Fellowship Payments should not be confused with a prize or award when a contest is entered. Please review the **Prizes and Awards** definition before making a determination.

² There are no reporting requirements for the University for a reward for a non-UMass U.S. Taxpayer Student.

B. Other Payment Types

Payment Type	U.S. Taxpayer Student		Nonresident Alien Student	
	Payment System(s)	Reporting	Payment System(s)	Reporting
Research as an Undergraduate (REU)				
UMass student	Student System	1098-T - COA	HR Payroll	1042-S
Non-UMass student ³	Accounts Payable (UMASS Vendor)	None	Accounts Payable (UMASS Vendor)	1042-S
Travel/Expense Reimbursement for University Business				
Student employee	HR Payroll (Concur Travel Expense Module)	None	HR Payroll (Concur Travel Expense Module)	None
Non-employee student	Accounts Payable (Student Vendor)	None	Accounts Payable (Student Vendor)	None
Service payment				
Employment related	HR Payroll	W-2	HR Payroll	1042-S or W-2
Not employment related	Accounts Payable (UMASS Vendor)	1099 if ≥ \$600	Accounts Payable (UMASS Vendor)	1042-S
GSBS students	HR Payroll	W-2	HR Payroll	1042-S or W-2
Honorarium				
Employment related	HR Payroll	W-2	HR Payroll	1042-S or W-2
Not employment related	Accounts Payable (UMASS Vendor)	1099 if ≥ \$600	Accounts Payable (UMASS Vendor)	1042-S
Human Subjects				
UMass student	Accounts Payable (UMASS Vendor)	1099 if ≥ \$600	Accounts Payable (UMASS Vendor)	1042-S
Prizes and Awards				
UMass student / Non-UMass student	Accounts Payable (UMASS Vendor)	1099 if ≥ \$600	Accounts Payable (UMASS Vendor)	1042-S
Student Leaders and Other Volunteers				
Student leader with job classification	HR Payroll	W-2	HR Payroll	1042-S or W-2
Student leader volunteer	Accounts Payable (UMASS Vendor)	1099 if ≥ \$600	Accounts Payable (UMASS Vendor)	1042-S
Royalty				
Student employee	HR Payroll	W-2	HR Payroll	1042-S or W-2
Non-employee student	Accounts Payable (UMASS Vendor)	1099 if ≥ \$10	Accounts Payable (UMASS Vendor)	1042-S

³ There are no reporting requirements for the University for REU's to a non-UMass U.S. Taxpayer Student. The payment may be taxable to the student.

Additional Resources

- IRS Publication 970, Tax Benefits for Education:
<https://www.irs.gov/forms-pubs/about-publication-970>
- IRS Publication 519, U.S. Tax Guide for Aliens:
<https://www.irs.gov/forms-pubs/about-publication-519>
- Payroll Tax Guideline 107: Employee vs. Independent Contractor Classification:
<https://www.umassp.edu/organization/central-administration-guidelines/payroll-tax-guideline-107-employee-vs-independent>
- Payroll Tax Guideline 106: Student Employee:
<https://www.umassp.edu/organization/central-administration-guidelines/payroll-tax-guideline-106-student-employee>

Appendix

Appendix A – Additional Definitions

Accountable Plan

The IRS rules that govern how employers can pay individuals without tax consequences for business expenses the individual incurs on the UMass's behalf.

Cost of Attendance (COA)

The cost in dollars, of a period of enrollment (such as an academic year). The COA for a student is an estimate of that student's educational expenses for the period of enrollment. Expenses included in the COA are tuition and fees, books and supplies, transportation, room and board, and personal expenses as required and allowed by federal financial aid regulations. Total financial aid eligibility is limited to the COA for federal aid recipients.

Expected Family contribution (EFC)

The EFC is result of a student's Free Application for Federal Student Aid (FAFSA) and represents the amount of money the federal government calculates a family could contribute toward the COA. The figure is determined by federal formulas applied to student-supplied data on family income, assets and other demographic information.

Financial Aid Package

The total student financial assistance offered to the student which may include: loans, grants, scholarships, fellowships, and need-based employment.

Financial Need = COA – EFC

Financial Need (or "need") is the difference between Cost of Attendance (COA) and the Expected Family Contribution (EFC). A student with federal aid awarded based on need cannot have total resources more than need. All resources count toward need except for non-need-based federal and private student loans.

Sprintax Calculus

Nonresident alien tax compliance system.

Foreign source Income

A payment for activities that occur outside the U.S. foreign source income received by nonresident aliens is not subject to U.S. taxation.

U.S. Person

An individual who is a citizen of the U.S. or a resident alien.

Appendix B – Financial Aid Overview

Overview of Financial Aid Guidelines

Most institutional funds made available to students should be awarded in the Student System. This facilitates proper internal and external reporting and ensures compliance with IRS rules and the requirement that any educational benefits paid to a student, regardless of the source, be considered in determination of eligibility for federal financial aid. “Financial aid” includes student loans.

Institutional funds for students that are not wages and not loans are considered scholarships (term for awards to undergraduates) or fellowships (term for awards to graduate and professional students) and must be awarded or accounted for in the Student System.

Federal Aid and Award Limitations

Federal regulations under the Higher Education Act of 1965 require institutions to monitor and limit total financial resources awarded to students receiving federal financial aid (includes grants, need-based employment, and loans).

- Federal aid recipients cannot have total resources more than their cost of attendance (COA). The COA, therefore, represents a cap on total funding.
- The Financial Aid office will have exact amounts published for the costs of attendance.
- Federal aid recipients with aid based on financial need cannot have need-based funds more than need, which is defined as the difference between COA and the Expected Family Contribution (EFC), a figure determined for each student who completes the Free Application for Federal Student Aid (FAFSA).
- An ‘over-award’ occurs when the student receives more aid than he or she is eligible to receive. This may be need-based aid more than need, total resources more than COA, or both.
- Recipients of scholarships, and fellowships should be informed that institutional financial aid will be taken into consideration when the Financial Aid Office determines eligibility for funds from other sources, including federal loans.

Timing and the Order of Awards

- Scholarships, and fellowships processed after the Financial Aid Office creates financial aid packages may result in a reduction of aid previously offered, so it is best to make awards before the Financial Aid Office determines eligibility for other funds. Contact your Financial Aid Office for the dates by which department awards should be made, for new and returning students, for both the academic year and summer to reduce confusion and frustration.

- Regardless of when an award is entered in the student system, or when the student needs the funds, aid must be attributed to the enrollment period it is intended to cover even if that period has ended or has not yet begun.
- A student may receive aid intended for periods of non-enrollment (usually summer) if this is consistent with the purpose of the funds.

Exceptions and Appeals

The regulations for federal financial aid recipients allow for certain limited exceptions when a student's expected costs and financial need limit eligibility for additional funds.

- A student's COA may be increased, on appeal with documentation, to add additional education-related costs in instances where there is insufficient room in the need or COA to accommodate the full amount of all potential awards. Financial aid staff reviews each appeal on a case-by-case basis, makes allowable adjustments to the COA and may post all or a portion of the award in the student system. A department may wish to award funds to cover costs, programs, research or travel not directly related to the student's pursuit of a degree.
- Students may also appeal to have documented unusual or unanticipated expenses considered in their COA. Examples include significant uninsured medical expenses, childcare costs, car repairs, the purchase of a computer, etc. These decisions are also made on a case-by-case basis and are at the sole discretion of the Financial Aid Office.
- EFC changes may also be made on appeal if the student and/or family's financial circumstances change or are not accurately reflected by the information collected on the FAFSA.

Appendix C – How to process a student payment through Accounts Payable

Payments through Accounts Payable account for any payments that cannot be paid through any other system, such as HR or the Student System.

Accounts Payable has three different mechanisms for student payments and it is important to identify the appropriate method of payment in order to determine what is required and what the payment is for specifically. The three methods are as follows:

1. SET ID-UMass (regular UMass supplier database) → Voucher entered through BuyWays direct payment
 - a. Payment subject to 1099 reporting
 - b. Invite to supplier/student through Total Supplier Manager (TSM)
 - c. W9 is required (generated by TSM or may be attached)
2. SET ID UMSFS (Student Database) → Voucher entered through PeopleSoft
 - a. Payment not subject to reporting and falls under the Accountable Plan
 - b. Enter Supplier Form Request through UPST Case Management to add Student
 - c. Student Name, Student ID, and address are required for Vendor Code Creation
 - d. Department to submit Accounts Payable Payment Request Form for Voucher Processing
3. Single-Payment → Voucher entered through PeopleSoft
 - a. Method is **only used for refunds if unable to return payment through original method of payment** for one-time payment.
 - b. Student Supplier ID is not created. Student information is only entered upon vouchering from the Accounts Payable Payment Request.

Any non-UMass student and UMass nonresident alien payments are to be paid through UMass for proper tax reporting. Payments for UMass students for human subjects, prizes/awards, non-employment related services, honoraria, student leader volunteers are all paid through Accounts Payables under the UMass regular supplier database through BuyWays. Royalties to nonemployee students are also paid through Accounts Payable.

For travel reimbursements, if deemed that primary benefit is to the University and the individual is a nonemployee student, the payment can be processed under the accountable plan without any withholding or reporting. Such payments are processed through AP, under the student database, SET ID-UMSFS, through PeopleSoft using a manual AP Payment Request Form.

Refund payments to students processed through AP are only available if the department is unable to return the funds through the original method of payment. In such cases, the payment is processed as a one-time payment through the Single-Payment Method without a Student Supplier ID in PeopleSoft.

Processing payments to nonresident aliens are complex and require Treasurer's Office oversight to ensure that proper reporting and withholding is present upon payment. The department is to use the Supplier Request Form in BuyWays and create a supplier request to properly account for the payment request. Accounts Payable cannot process payment to nonresident aliens without proper supplier setup and vetting by the Treasurer's Office. After the nonresident alien is setup in the system, the department may proceed with payment through BuyWays.