



University Policy: Student Payments Policy

Policy Category: Operational Policies

Subject: Payments to Students

Office Responsible for Review of this Policy: Office of Finance and Treasurer

Related University Policies: Accounts Payable Policy, Graduate Financial Aid Policy, Procurement and Contracts Policies, Procedures & Guidelines, Student Refund Policy and Travel Policy

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I. SCOPE

American University (AU or the University) makes various payments to students for tuition and fees, teaching, research, and other education-related activities. In awarding and processing such payments, care must be taken to classify these payments correctly to avoid over awarding students financial aid, causing undo financial surprises for students and tax reporting purposes. This policy addresses types of payments made to both graduate and undergraduate students, including scholarships, fellowships, prizes, compensation for services related to work and reimbursements. Additionally, this policy describes what types of payments may be taxable income to AU students and which payments require tax reporting and withholding.

II. POLICY STATEMENT

The purpose of this policy is to explain how to categorize payments made to students in support of their education and non-education related activities.

III. DEFINITIONS

Compensation for Services Related to Work – payments made for teaching, research and/or other activities performed for the direct benefit of the University.

Cost of Attendance – the standard cost of attendance includes an allowance for tuition, fees, room, board, books/supplies, transportation, personal expenses, and loan fees.

Fellowships / Assistantships – the combination of one or more of the following payments for the benefit of an individual student (typically graduate studies related):

- A scholarship
- Compensation for services related to work
- Student support payment
- Research requirement in furtherance of a degree – payments which aid in the pursuit of an individual's study or research which is required for the degree. No past, present, or future services are expected in return for the support. (typically processed by financial aid)
- Research requirement in furtherance of a faculty member's research – payments would be considered compensation for services related to work. (typically processed by Human Resources (HR) / Payroll)

Prizes – A monetary payment (cash or cash equivalent) or non-monetary object given in recognition of extraordinary artistic, charitable, civic, educational, literary, or scientific achievement and typically is not considered financial aid.

Scholarships – institutional or external payments made on behalf of a student that applies to tuition, fees, room, board, books, transportation, personal living expenses, study abroad expenses, or any other items in the student's AU cost of attendance.

Student Reimbursements – Costs personally incurred by students for pre-approved legitimate University business expenses which are reimbursed by the University and not subject to tax reporting or withholding. Situations involving student reimbursements should rarely, if ever, occur.

Student Support Payment – payments made for expenses that are not qualified tuition or required education expenses (e.g. amounts included but not limited to non-required travel, research and other related expenses). These expenses are not considered financial aid.

IV. TAX IMPLICATIONS

A. Scholarships

The reporting and taxation of scholarships are governed by the Internal Revenue Code and Treasury Regulations and enforced by the Internal Revenue Service (IRS) as well as state revenue agencies. IRS regulations indicate amounts paid to an individual are scholarships if: "the primary purpose of the studies or research is to further the education and training of the recipient in his individual capacity," and the payments did not represent compensation for services. (Treas. Reg. Sec. 1.117-4). A "qualified scholarship" is the amount of a scholarship that can be *excluded* from the recipient's income and is limited to the amount used for tuition and fees, books, supplies, and equipment required for courses. These items must be required of *all* students in a course of instruction for the scholarship or fellowship grant to be excluded from the recipient's income (Prop. Treas. Reg. Sec. 1.117-6(c)(2)).

Scholarship funds may be taxable income to the student on both the state and federal level. Please refer to IRS Publication 970 "Tax Benefits for Education" for more information about the federal income tax implications of the scholarships the student has received. The student will receive an IRS form 1098-T from American University in January for all amounts awarded during the previous calendar year. Likewise, the income tax department in the state where the student files his/her state income tax return can provide information pertaining to the taxability of this award on the state level. International students should refer to IRS Publication 515 "Withholding of Tax on Non-resident Aliens and Foreign Entities" for more information about the federal income tax implications.

Sources of Additional Information

- <http://www.irs.gov/publications/p970/ch01.html>
- http://www.nacubo.org/documents/EventsandPrograms/1098T_Webcast_FAQ.pdf

B. Student Support Payments

Payments made for expenses that are not qualified tuition or required education expenses (e.g. amounts included but not limited to non-required travel, research and other related expenses). Support payments are potentially subject to income tax withholding and reporting on Form W-2 for students who are also employed by the University at the time of the payment, Form 1099-MISC for students who are not employed by the University at the time of payment, or Form 1042-S for students who are Non-Resident Aliens at the time of payment.

Example:

A student travel payment is generally considered to be student support (taxable, reportable) if:

- Reimbursement is made for activities in which the University is relatively disinterested or the research is student led
- The project/research's primary purpose and original intent is to further the student's education or training but is not a required educational expense
- The University obtains little or no benefit
- Activities are performed to contribute to the development of the skills needed in the student's studies

C. Prizes

Prizes are monetary payments (cash or cash equivalents) or non-monetary objects given in recognition of extraordinary artistic, charitable, civic, educational, literary, or scientific achievement and typically is not considered financial aid. All monetary prizes (or non-monetary prizes over the reportable threshold) are includible in gross income (Treas. Reg. Sec. 1.74-1(a)).

For **U.S. and resident alien students who are AU employees**, all prizes must be reported by the University to the IRS on Form W-2 from the first dollar earned.

For **U.S. and resident alien students who are not AU employees**, all prizes must be reported by the University to the IRS on Form 1099-MISC if total prizes to the student in the relevant calendar year exceeds the reportable threshold. It is the responsibility of all prize recipients, regardless of the amount of the prize, to report the taxable prize received to the IRS on their personal income tax returns.

For **non-resident alien students**, the University is required to withhold 30% tax on the full amount of the prize. The prize amount will be reported to the IRS and to the student on Form 1042-S.

D. Compensation for Services Involving Work (Includable in Income)

An amount represents *compensation for services*, and **not** a scholarship per Treas. Reg. Sec. 1.117-4, if:

- the amount represents compensation for past, present, or future employment services;
- the activity the payments fund is "subject to the direction or supervision of the grantor"; or
- the payment enables the recipient to "pursue studies or research *primarily for the benefit of the grantor.*"

(Note: AU is considered the "grantor")

These compensated services are considered wages for employment tax purposes and are subject to employment tax withholding and reporting requirements. Whether a payment is of the nature of a scholarship or is of the nature of compensation depends on the "primary purpose" of the payment: "Was the taxpayer *paid to work* or *paid to study*?"

More specifically, with respect to research activities, an issue often arises when determining whether the research activities constitute "services" or "independent research." Factors that the IRS and the courts have taken into account in making this determination include:

- The extent of faculty supervision of the student's work, including planned time schedules and required progress reports.
- The student's ability to direct the course and direction of the research activities.
- Whether the student is able to retain any patents or copyrights resulting from his or her efforts.
- Whether the research services are directly related to the fulfillment of a contractual commitment by the university.
- Whether the student is required to work a specified number of hours a week on the research project.
- Whether the payment made to the student was relatively small (generally indicative of a fellowship) or relatively large (generally indicative of compensation), although in the case of large amounts, the amount above an amount typically paid for the services provided may be a non-wage fellowship.
- Whether the university treated the student as a student worker as evidenced by withholding tax on the payments as wages and providing faculty privileges and other employee benefits.

Compensation for work is therefore defined as payments made for teaching, research and/or other activities performed for the benefit of the University, including activities for the University that may be associated with the student's course of study and educational experience. Payments received in connection with the performance of service by a student are taxable income, and may be subject to federal, state and FICA tax withholding.

E. Student Reimbursements

Situations involving student reimbursements should rarely, if ever, occur.

Student reimbursements are payments for costs personally incurred by students for pre-approved legitimate University business expenses which are reimbursed by the University and not subject to tax reporting or withholding. The student must be able to provide supporting documentation noting the reimbursement:

- Directly supports a faculty member's project or research program, or
- Is related to presenting at a conference, or
- Is official University business

Any reimbursement to an undergraduate or graduate student which does not meet one of the criteria above will be processed as a taxable and reportable student support payment.

Example:

A student travel payment is generally considered to be a reimbursement (non-taxable, non-reportable) if:

- The primary purpose and original intent of the travel is for the University to obtain useful results from the project/research
- Results or research will be used by the University
- Research is performed to fulfill University's obligations to outside funding entity
- Student is presenting in a conference or competition on behalf of the University

V. HOW TO PROCESS STUDENT PAYMENTS

Various offices across campus support the student payment process. To ensure all payments are processed timely and accurately, the "Student Payment Decision Guide" is included as **Appendix A** to assist departments in determining how a payment should be processed.

A. Scholarship Payments

All scholarships and educational assistance payments must be processed through the University's Financial Aid Office. Students should be registered for the term that the funds are being provided, as these payments cannot be applied to a term for which the student is not enrolled in at least one course. These payments are disbursed through the student's University account and are considered a resource when determining a student's financial aid eligibility.

All requests for financial aid payments should be emailed to fascholarship@American.edu and include the following:

- Copy of the completed form "Scholarship/Fellowship Payment Request"
- Copy of the scholarship award letter provided to the student
- IRS Form W-8BEN (only needed for non-resident aliens)

B. Student Support Payments, Prizes & Compensation for Services Involving Work

Payments made to **students employed by AU**, should be processed through HR and Payroll. An E-action must be submitted to Human Resources to hire the student into a position number linked to the appropriate general ledger account for the payment type (Refer to Appendix B for payment type object code definitions). Each school/department should work with their primary budget manager and/or the University Budget Office to identify an active position number linked to the appropriate general ledger account for the payment type **prior to submitting the E-action to Human Resources.**

To complete an E- action, please perform the following steps:

- Log into the AU Portal – myau.american.edu and Go to “HR/Payroll Connection”
- Select the “Department Admin” Tab and then “Personnel Action” Tab
- Select “New Action”
- From drop down menu, select the hiring action you want to perform
- Enter “AU ID #” (**Important:** This field is mandatory and missing and/or incorrect information will delay payment processing) and “Position #” (**Important:** Ensure that the position number provided is active and linked to the appropriate general ledger account for the payment type) and hit “Next Page”
- Complete blank fields (Work Start & End Dates, Total Payment, # of Payments, Reason for Payment and Hours Worked per Week)
- Use “Comments Section” to explain the purpose of the student payment to HR and Payroll. This field is mandatory and missing and/or incorrect information will delay payment processing.

Payments made to **students not employed by AU**, should be processed through Accounts Payable, with the exception of any non-resident alien student (refer to section C below). The request should be submitted on a Disbursement Request Form (located on the portal at <https://myau.american.edu/finances/Controller/Pages/default.aspx>) to accountspayable@American.edu. The following supporting documentation **MUST** be attached in order for timely processing:

- 1) Copy of the signed disbursement request outlining the reason for the payment
- 2) Copy of completed W-9 or W-8BEN

C. Payments to non-resident alien students

All payments to non-resident alien students (does not apply to students defined as resident aliens by the IRS for U.S. tax purposes) must be reviewed by a University Foreign National Specialist in the Payroll Department prior to processing. If you have any questions regarding a student’s residency status, please contact the Foreign National Specialist team in the Payroll Department for guidance prior to taking any action to process a payment. If you have determined the student in question is a non-resident alien, the student receiving payment should perform the following steps:

- 1) Schedule an appointment with a foreign national specialist in Payroll.
 - Go to the AU Portal at myau.american.edu
 - Find Work@AU tab
 - Click on Payroll
 - Click on Foreign National Appointment Schedule

- 2) Bring the following documentation (if possible) to the appointment:
- Passport with a picture ID, date of birth and visa sticker
 - Form I-20 (F1 visa) or DS-2019 (J1 visa)
 - Form I-94 printed from the following web site:
<https://i94.cbp.dhs.gov/I94/request.html>
 - W-8BEN form

Once the necessary paperwork has been provided by the non-resident alien student, the payments can be processed in accordance with University procedures outlined above in Section B or C.

D. Student Reimbursements

Situations involving student reimbursements should rarely, if ever, occur.

Student reimbursement payments should be processed through the Accounts Payable office. Reimbursements are payments for costs personally incurred by students for pre-approved legitimate University business expenses. Requests for reimbursement must include certifications from the student and supervising AU employee (e.g. faculty, staff or Principle Investigator) affirming the costs are eligible for University reimbursement.

Certification is done when the student and the supervising AU employee complete the "Student Reimbursement Certification" form (located on the portal at <https://myau.american.edu/finances/Controller/Pages/default.aspx>). Once complete, the form and relevant supporting documentation must be submitted to accountspayable@American.edu.

If the certification form is not attached to the reimbursement request, the payment will be processed as a student support payment and subject to the taxation and reporting requirements outlined in Section IV.

VI. EFFECTIVE DATE(S)

This Policy is effective May 1, 2016.

VII. SIGNATURE, TITLE AND DATE OF APPROVAL

This policy needs to be signed by the appropriate officer (listed below) before it is considered approved.

Signed by: Douglas Kudravetz, April 22, 2016