

TAX MANAGEMENT OFFICE

JULY 13, 2017

Job Aid for Making Fellowship vs Employee Determinations

Generally, a fellowship or scholarship (hereafter fellowship) payment is one made to, or for the benefit of, an individual to aid the individual in the pursuit of studies or research. If, however, a purported fellowship amount represents payment to the individual for the required performance of teaching, research, or other services, such amount must be treated as employee wages.

The University of Minnesota is responsible for correctly classifying payments made to individuals. Misclassifying employees as fellows, or vice versa, may expose the U and the individuals involved to significant adverse tax consequences or unintended financial aid implications. For example, a department misclassifying an employee as a fellow could be responsible for payroll tax withholding (FICA, federal and state income tax) for both the individual and the U, typically equal to more than 40% of the amount paid. Conversely, if a department misclassifies a fellow as an employee, both the individual and the U may be required to make unnecessary FICA tax payments totaling approximately 15% of the amount paid.

This job aid is intended to help departments when making fellowship vs employee determinations. It is not a required form, but departments are strongly encouraged to use and retain the form to document conclusions made. The aid could be completed multiple times for the same individual with multiple sources of payments, or it could be completed to cover a group of recipients in the same circumstances. This form does not apply to payments for services made to individuals employed in appointments such as Graduate Instructor, or Research or Teaching Assistant. Amounts paid pursuant to employment appointments are properly classified as wages.

Section A

Recipient _____ Department _____

Funding Source _____ Date _____

Preparer _____ Advisor/Appointing Authority _____

Section B

Were the payments made under one of the following:

- The National Research Service Award (NRSA) fellowship program (such as F31, F32 or T32 programs),
- The National Health Service Corps Scholarship Program, or
- The Armed Forces Health Professions Scholarship and Financial Assistance program?

If yes, the payments should be treated as a fellowship for tax purposes. **If no**, continue to Section C.

Section C

Were the payments made under one of the following specific types of National Institute of Health research grants (applies to these NIH programs only):

- Research Project Grant (R01),
- Exploratory/Developmental Research Grant Award (R21),
- Resource-Related Research Project (R24), or
- Research Education Grant (R25)?

If yes, the payments should be treated as wages. **If no**, continue to Section D.

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Section D		Employee	Fellow
1.	Is the individual required to perform past, current or future service for the U as a condition of receiving the payment (such as teaching or research)?	_____	_____
		Yes	No
2.	Is the payment that is made to the individual charged to an agreement under which the U has agreed to perform specific research or another U contractual obligation?	_____	_____
		Yes	No
3.	Does the funding source prohibit the payment of fellowships with the funds or require that payments to individuals be for compensation for personal services?	_____	_____
		Yes	No
If any answer is yes, the payment should be treated as wages. If no answer is yes, continue to Section E.			

Section E		Employee	Fellow
1.	Even if the individual is not required to perform services to receive the payment, do the activities that the person conducts primarily (a) benefit the U, or (b) further the individual's training and skill development?	_____	_____
		(a)	(b)
2.	Are the areas of the individual's projects primarily (a) determined solely by an advisor or supervisor with no discretion by the individual, or (b) determined in consultation between the individual and the individual's faculty advisor and/or faculty mentor?	_____	_____
		(a)	(b)
3.	Does the individual serve primarily as a replacement or substitute for an employee, such as a laboratory technician?	_____	_____
		Yes	No
4.	Is the individual required to primarily perform his/her activities according to certain planned time schedules, e.g., a specified number of hours a day or week and a specified number of weeks during the year?	_____	_____
		Yes	No
5.	Is the individual subject to the same, or higher, level and type of supervision over the conduct of his/her activities as a U teaching, research, or similar graduate assistant employee?	_____	_____
		Yes	No
If three or more of the fellow boxes are marked, the payment should be treated as a fellowship for tax purposes. If fewer than three fellow boxes are marked, the payment should be treated as wages.			

Questions regarding using this job aid may be directed to the Tax Management Office at taxhelp@umn.edu or 612-624-1053.

Please Note: Fellowship award letters should indicate that payments are to support the individual's studies or research and that no services are required to receive the payments. Language such as the following should appear in the award letter, and the program itself must reflect this provision:

This is a non-service fellowship award. The individual receiving this award is not required to perform any services in exchange for the award. Accepting this award may affect eligibility for need-based financial aid through the Office of Student Finance.

See Supplement for additional information.

The University Tax Management Office
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