GUIDELINE PURPOSE

A goal of the University of Minnesota (U) is that all payments to students be paid through the U payment system that will result in compliance with applicable laws and regulations.

The primary purpose of this guide is to assist U departments in identifying the type of payment being made to students so that the appropriate U 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 that the U is meeting all tax reporting requirements. Secondarily, in an effort to assist departments in answering questions from students, this guide also provides information related to that required reporting.

Pursuant to this guide, U departments will know which of the following three payment systems to use when making a payment to a student:

1) Human Resources (HR) Payroll System, including Company University Non-service (UNS),
2) Accounts Payable System within the Controller’s Office (Accounts Payable), or
3) Student Finance System.

Key Concepts Relating to Payments to Students

In the context of this guidance, the word stipend is used to describe many different types of payments made to students. Compensatory payments are dependent upon the student providing services as a condition of receiving the payment. Non-compensatory payments are made without regard for services rendered by the student. Reviewing the facts and circumstances of a stipend along with this guideline will allow the paying department to make an accurate decision regarding which payment system to use.

It should be understood that even if a payment to a student is not reportable to the IRS by the U, it still may 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 US Taxpayer, meaning both United States students and resident aliens for tax reporting purposes, or a nonresident alien for tax reporting purposes, hereinafter referred to as an NRA. The information the U 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 US 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. More information on NRA/foreign national treatment can be found here.

* generally

The University Tax Management Office
2221 University Ave, SE, Suite 100
Campus Mail Code 2715A
Minneapolis, MN 55414
Phone: 612-624-1053
Email: taxhelp@umn.edu
Web: tax.umn.edu
Payments to Students

If payments are required to be reported by the U for tax purposes, the payment system will determine whether to use a Form W-2, 1099-NEC, 1099-MISC, 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-NEC, Nonemployee Compensation, is used to report compensatory nonemployee payments that equal or exceed $600 during a calendar year. A Form 1099-MISC, Miscellaneous Income, is used to report certain non-compensatory 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. This TMOG does not address reporting required on Form 1098-T, Tuition Statement - that is managed by the Office of Student Finance.

When deciding which payment system to use to make a payment to a student, it is sometimes necessary to determine whether the payment is related to the recipient’s employment relationship with the U. The following should be considered when making that determination:

- 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 any of the questions are answered in the affirmative, the payment should be made to the student through the HR Payroll System. Please note that this guidance applies to payments made to students; all payments to employees who are not students are generally paid through the HR Payroll System. Additional information about students receiving gift cards can be found in Question 3 of TMOG #18, Employee Awards Questions and Answers.

Stipends may be defined as employment-related for purposes of one law (such as the IRC) and non-employment pursuant to other laws (such as the Fair Labor Standards Act.) This guideline addresses the requirements from an IRC tax law perspective. Also, please see Section 13, Financial Aid Implications, for information about whether payments may impact financial aid packages.

Types of Stipend Payments Made to Students

Following are descriptions of common types of categories and related examples of payments made to students. The Tax Management Office is available to help analyze situations that are unclear or not addressed in the examples.

1. Wages to Student Employee for Services
2. Payment to Non-Employee Student for Services
3. Honorarium
4. Human Participant Payment
5. Prize
6. Travel/Expense Reimbursement for U Business
7. Participant Payment
8. Scholarship/Fellowship
9. Student Leaders and Other Volunteers
10. Royalty Payments
11. Internships
12. Gift Cards or Prepaid Debit Cards
13. Financial Aid Implications
14. Contacts

1. Wages to Student Employee for Services
Payments for services performed by students pursuant to an employer/employee relationship with the U are wages. Wages include research grant payments to a student either from a grant administered by the Sponsored Projects Administration Office of the U, 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 US Taxpayers and on either a 1042-S or W-2 for NRA students, depending on treaty applicability. If a payment by a U department to a student employee does not relate to an employment relationship, consider other types of stipends to identify the appropriate category for the non-wage payment.
Payments to Students

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Employee Wages for Services</td>
<td>HR Payroll</td>
<td>W-2</td>
<td>1042-S or W-2</td>
</tr>
</tbody>
</table>

Example 1A – Hourly student employee: A US 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: An 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 US Taxpayer student employee performs research services required under a U Sponsored Project 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 U: A US Taxpayer student is chosen to work as an intern in a U department. The student is working under the direction and control of a U 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. Also see Example 8C - Internship with Third Party.

Example 1E – Student employee working on faculty research: A U faculty member is awarded an internal grant to further the faculty member’s research. The grant money is used to hire a US 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.

Also see Examples 9A and 9B – Resident Hall Assistant.

2. 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 US 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.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment to Non-employee Student for Services</td>
<td>Accounts Payable</td>
<td>1099-NEC if ≥ $600</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 2A – Non-employee services: A US 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 US Taxpayer student is paid to perform piano music at an evening reception held on campus. The student is employed by the U 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 US 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 the U 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.

Tax Management Office Guideline
Payments to Students

they may have with the U. The U has no reporting requirements because the amount is less than $600, although the income may be taxable for the student.

3. Honorarium
A payment intended to show appreciation for a student’s involvement in, and contribution to, a U event is an honorarium. The U event could be a symposium, conference, workshop, seminar or other activity. Honorariums are deemed compensatory in nature and the appropriate payment system is dependent on whether or not the student’s contribution being honored relates to an employment relationship with the U. 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 US 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. Honorariums are reported for the non-employment work to the student and the IRS as 1099 income for US Taxpayer students if the payment is $600 or more and as 1042-S income for NRA students, regardless of the amount.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honorarium, Employment Related</td>
<td>HR Payroll</td>
<td>W-2</td>
<td>1042-S or W-2</td>
</tr>
<tr>
<td>Honorarium, Not Employment Related</td>
<td>Accounts Payable</td>
<td>1099-NEC if ≥ $600</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 3A – Non-employee honorarium: A nonemployee US Taxpayer student collaborates with faculty and other students to plan a U conference. The Department pays the student $50 to show appreciation for the student’s contribution to the U event. The payment is made through Accounts Payable and no reporting is required by the U 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 US Taxpayer student collaborates with faculty and other students to plan a U conference sponsored by the Department in which the student works. The Department pays the student $50 in addition to the student’s hourly wage. The $50 honorarium payment is paid through the HR Payroll System and is included in the student’s W-2 income and reported to the IRS.

Example 3C – Employee honorarium, not employment related: A US 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 the U, the payment is considered paid to a non-employee and is made through Accounts Payable. There are no reporting requirements for the U, though the amount may be taxable income to the student.

4. Human Participant Payment (Formerly known as Human Subject Payment – this was changed to reflect a change in the terminology used in the U policy referenced below)
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 participant payment. The human participant payment is generally made to encourage the student to participate in providing information to the investigator. The value of the stipend is not commensurate with the effort the student expends and is not considered a payment for services. Human participant payments are made using procedures outlined in the policy entitled Paying Human Participants and Maintaining Confidentiality and are reportable as 1099 income to US Taxpayer Students when $600 or more, and as 1042-S income for NRA students, regardless of the amount.

Tax Management Office Guideline
Payments to Students

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Participant Payment</td>
<td>Accounts Payable</td>
<td>1099-MISC if ≥ $600</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 4A – Human Participant: A US 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 Participant: 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.

5. Prize

A payment or other consideration, including tangible personal property or gift cards, received as a result 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 and is addressed in Section 8. A cash prize payment greater than $100 to a U student is made through Student Finance and is reported to a US Taxpayer student and the IRS as 1099 income if it is $600 or more. The department initiating the payment through scholarship automation must report the prize payment to Accounts Payable so the 1099 will be issued when required. A cash prize payment to a U student of $100 or less is made through Accounts Payable using the Single Payment Vendor process. A cash prize payment to a non-U student is made through Accounts Payable and is reported to a non-U US 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. The value of a noncash prize must be reported to Student Finance (unless the value is $100 or less) for U students, and to Accounts Payable for non-U students. It will be reported to a US Taxpayer student and the IRS as 1099 income if the value of the property is $600 or more. The value of noncash prizes awarded to NRA students is reported on a 1042-S regardless of the amount. For purposes of this prize section, “U of MN student” means a recipient registered for class(es) at the U at the time the payment is made. This includes a recipient enrolled in a zero-credit summer course such as UGRD 4999. The recipient is not considered a U of MN student when the payment is made between terms since the recipient is not registered at that time.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prize Payment to U of MN Student &gt; $100</td>
<td>Student Finance</td>
<td>1099-MISC if ≥ $600</td>
<td>1042-S</td>
</tr>
<tr>
<td>Prize Payment to U of MN Student ≤ $100</td>
<td>Single Payment Vendor Accounts Payable</td>
<td>1099-MISC if ≥ $600</td>
<td>1042-S</td>
</tr>
<tr>
<td>Prize Payment to Non-U of MN Student</td>
<td>Accounts Payable</td>
<td>1099-MISC if ≥ $600</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 5A – Cash prize: A US Taxpayer non-U student enters several photos in a contest and wins a prize of $800. The payment is made through Accounts Payable and reported to the US Taxpayer student and the IRS as 1099 income.

Tax Management Office Guideline
Example 5B – Property prize: An NRA student of the U creates and enters a video in a contest, and wins a new computer valued at $500. The value of the computer is reported to Student Finance by the department holding the contest and the value is reported to the NRA student and the IRS on a 1042-S.

Example 5C – Entrepreneur prize: A US Taxpayer U student enters an entrepreneur contest held by a U 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 award is made through Student Finance and is reported on a 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 could impact any financial aid package the student may have previously been awarded.

6. Travel/Expense Reimbursement or Meal Per Diem for U Business
A travel reimbursement or meal per diem payment made to a student traveling on behalf of the U is made under the U’s Accountable Plan pursuant to the Traveling on University Business Administrative Policy. Similarly, an expense reimbursement made to a student that incurs expenses on behalf of the U is made under the U’s Accountable Plan. The department making the payment must determine whether the student is incurring the expenses primarily for U business or primarily for the benefit of the student. When the primary beneficiary of the expense is the U, the payment is treated as a U business expense. (When the primary purpose of the payment is to support a learning opportunity of the student, it is treated as a scholarship pursuant to Section 8.) 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. The U’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.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Reimbursement for University Business</td>
<td>Accounts Payable</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

Example 6A – Representing U at conference: A student participating in a U graduate program travels to a conference out-of-state. The U department has asked the student to represent the U 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 as long as 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 U 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 the U’s Accountable Plan and there is no reporting for this transaction.

Example 6C – Reimbursement for lunch expense: Under U faculty direction, a U student is asked by a U staff member to take a potential graduate student visiting the U to lunch. This is a U 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.

Also, see Example 8E for reimbursement related to a student traveling on personal business.

7. Participant Payment
A payment to an individual who is participating in a U 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

Tax Management Office Guideline
Payments to Students

program during the summer, or over the school year, such as a semester or school-year-long Research as an Undergraduate (REU) program. A participant payment is a type of scholarship; it is named as a separate category in this TMOG to match the language used in some grants that allow grant funds to be used for participant payments. This payment cannot be for services rendered; it is non-compensatory.

The participant does not need to be enrolled as a student at the U to receive a participant payment. However, to receive the participant payment through Student Finance, the student must be currently registered in either a for-credit or a zero-credit course (such as UGRD 4999 during the summer). A second option for participant payments made to U of MN students is using Company University Non-service (UNS) within the HR Payroll system. Payments made through Company UNS are generally larger dollar amounts that a U department does not want to make as a lump-sum payment. Company UNS payments are periodic payments that follow the payroll schedule rather than lump sum payments. See HRMS UNS Appointments Job Aid for a list of Job Codes that may be used for UNS appointments. Company UNS payments may continue through the summer when a student is registered at the U for both Spring and Fall semesters. Participant payments for non-U individuals are made through Accounts Payable. For US Taxpayer students, the U is not required to report participant payments to the student or the IRS, but 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.

Additional guidance is provided by Sponsored Financial Reporting for REU payments. See Stipend Payment Process.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participant Payment to U of MN Student</td>
<td>Student Finance</td>
<td>None*</td>
<td>1042-S</td>
</tr>
<tr>
<td>Participant Payment to U of MN Student</td>
<td>UNS in HR Payroll</td>
<td>None*</td>
<td>1042-S</td>
</tr>
<tr>
<td>Participant Payment to Non-U of MN Student</td>
<td>Accounts Payable</td>
<td>None*</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 7A – U student summer REU: A US Taxpayer student of the U registered for zero credit course UGRD 4999 participates in a two-month summer Research Experience for Undergraduates (REU). 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 Finance. Although the payment may be taxable to the student, the U has no reporting requirement to the student or IRS. Alternatively, payments could be made through Company UNS in HR Payroll.

Example 7B – Non-U student summer learning: A non-U NRA student participates in a 3-week summer learning program. No services are performed. The non-U 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 7C – Non-U student: A local high school teacher that is not a U student participates in a 3-week summer learning program. The teacher is a US 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 the U, although the payment may be taxable income to the individual.

Example 7D – U student calendar year REU: A US Taxpayer student of the U participates in a learning experience during the entire calendar year. The student is registered for classes in Spring and Fall semesters. The department paying the student elects to pay supplemental REU payments using Company UNS through HR Payroll to avoid a
lump sum payment and instead make payments on the payroll schedule. Since the student is registered for both Spring and Fall semesters, Company UNS may be used to make the payments during the summer even though the student is not registered in the summer. If the student was not registered for Fall semester, the department could register the student for a zero-credit course such as UGRD 4999 during the summer so Company UNS could continue to be used to make the payments through the summer.

8. Scholarship/Fellowship
A payment or allowance made to aid a student in furthering the academic, research and/or scholarly education of the individual is a scholarship/fellowship payment. The payment must not be for services rendered to the U. Benefits to the U as a result of a scholarship/fellowship payment are secondary to the primary purpose of the payment. To the extent scholarship/fellowship payments are used for qualified educational expenses, they may be excluded from the recipient’s income. Amounts used for non-qualified educational expenses are taxable to the student, but not reportable by the U for a US Taxpayer student. For an NRA student, the scholarship/fellowship payments made in excess of qualified educational expenses charged by the U are reported on a 1042-S.

Stipends 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 are no U reporting requirements to the IRS for US Taxpayer students and reporting for NRA students is made on a 1042-S.

Most payments of scholarships/fellowships to U of MN students are made through the Student Finance System. A second option for scholarship/fellowship payments made to U students is Company University Non-service (UNS) within the HR Payroll system. Payments made through UNS are generally larger dollar scholarships/fellowships that a U department does not want to make as a lump-sum payment. UNS payments are made over a period of time following the payroll schedule rather than as lump sum payments. To continue using Company UNS for payments made during the summer, the student must either be registered for a summer course (credit or zero-credit) or be registered for both Spring and Fall semesters. See HRMS UNS Appointments Job Aid for a list of Job Codes that may be used for UNS appointments.

When a scholarship/fellowship payment is made to a non-U student, it is made through Accounts Payable.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scholarship/Fellowship for U of MN Student</td>
<td>Student Finance</td>
<td>None*</td>
<td>1042-S</td>
</tr>
<tr>
<td>Scholarship/Fellowship for U of MN Student</td>
<td>UNS in HR Payroll</td>
<td>None*</td>
<td>1042-S</td>
</tr>
<tr>
<td>Scholarship/Fellowship For Non-U of MN Student</td>
<td>Accounts Payable</td>
<td>None*</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 8A – Graduate student: A US Taxpayer student is accepted into a U graduate program that will require several years of study. The student will receive an annual stipend of $24,000. The student will not perform any services in exchange for the scholarship/fellowship payment. There are two options for making this award: the Student Finance System or UNS in HR Payroll. If the student is paid through the Student Finance System, the student will receive a lump sum amount at the beginning of each semester/summer session. If the student is paid through UNS, the annual award will be spread over the entire year and paid every two weeks coinciding with when

Tax Management Office Guideline
Payments to Students

payroll is paid. There is no reporting to the student or the IRS by the U regarding the total scholarship/fellowship payment, although the payment may be subject to tax for the student.

Example 8B – Sports team manager: A US 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 an “M” letter for outstanding participation. A scholarship for $1,500 is awarded to the student and paid through the Student Finance System. The scholarship is not reportable by the U to the IRS, although it may be subject to tax for the student.

Example 8C – Internship with third party: A business that is not related to the U hires a U 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, the U has awarded a stipend to the student to help defray costs associated with the internship. The student will not perform any services for the U, and the payment from the U is considered a scholarship/fellowship that is paid through the Student Finance System. There are no reporting requirements for the U to the IRS for the amount paid through the Student Finance System. 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 the U 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.

Example 8D – Health insurance premiums: Payments of health insurance premiums by the U 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 the U health plan. There is no reporting requirement for the U to the IRS, but the payments may be taxable income for the student.

Example 8E – Travel allowance/reimbursement for student’s personal business: A student participating in a U graduate program travels to a conference out-of-state. Although the student will not be presenting at the conference, the U graduate program agrees to pay $500 for travel costs so the student is able to experience a conference. This payment is a scholarship/fellowship payment because the student is not traveling to represent the U, but primarily to further the student’s scholarly education. The payment is made through the Student Finance system. If the student is a US Taxpayer student, there are no reporting requirements by the U. If the student is an NRA student, the payment is reported on a 1042-S. For students traveling on U business, see Example 6A

Example 8F – Award from NCAA Student Athlete Opportunity Fund: An eligible US Taxpayer student-athlete receives a reimbursement for clothing and shoe items. The student is paid through the Student Finance System. There is no reporting to the student or the IRS by the U regarding the total scholarship/fellowship payment, although the payment may be subject to tax for the student.

Example 8G – Application fees for non-U student: A U unit wants to assist a potential US Taxpayer student by awarding a scholarship to the student to cover fees that must be submitted with the individual’s application to the U. Because the individual is not yet a student, the payment is made through Accounts Payable. There is no reporting to the student or the IRS by the U, although the payment may be subject to tax for the student.

Example 8H – Health Rural Rotation award: A department in Health Sciences offers health professions students who participate in a rural rotation the opportunity to apply for a travel scholarship to cover the student’s additional transportation costs to the rural site. The award is only made to students registered for at least one credit at the U and is paid through Student Finance. Alternatively, if non-registered students were eligible, the payment for the non-registered students would be made through Accounts Payable. There are no reporting requirements for the U for either of these scenarios.

Example 8I – Prize when no contest entered: A US 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 prize for the best paper written by all students enrolled in the class that semester. The student does not enter a
Payments to Students

contest, but the student’s paper is automatically reviewed by the instructors. This is considered a type of scholarship and should be paid through Student Finance for U students or through Accounts Payable for non-U students. There are no reporting requirements for the U. See Section 5. Prize for treatment when student enters a contest.

9. Student Leaders and Other Volunteers
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 the U 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 Payroll for HR job classifications and through Accounts Payable for volunteers. When a department contemplates using student volunteers that do not fall under an HR job classification, it should first obtain and complete the volunteer disclaimer forms prepared by the Office of the General Counsel (OGC-SC214.) When the payment relates to services provided by the student, even when the payment is not commensurate with the efforts expended, there is no impact on financial aid packages and Student Finance does not need to be informed of payments.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Leader with Job Classification</td>
<td>Payroll</td>
<td>W-2</td>
<td>1042-S or W-2</td>
</tr>
<tr>
<td>Student Leader Volunteer</td>
<td>Accounts Payable</td>
<td>1099-MISC if ≥ $600</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

Example 9A – Resident Hall/Community Advisor: A Resident Hall/Community Assistant Advisor (Advisor) assists students in acclimating to the U 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 the U. The U 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.

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 charged with choosing the movies that will be shown at Coffman Memorial Student Union. The chair of the committee is responsible for recruiting committee members, scheduling meetings and preparing agendas. The payments made to the student

Tax Management Office Guideline
Payments to Students

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 the U 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 1099.

Example 9D – Volunteers of student group stipends: A student group has been selected to have its volunteers receive a stipend. The total payment is split equally among three student board members of the student group. The student board members perform services for the student group as volunteers. There is no job classification for this role. The payments received by the students are not commensurate with the amount of time spent volunteering for the group. However, the payments encourage students to take on the role and provide support to offset the fact that the students do not have time to work in paying jobs due to the time spent volunteering. The payments are made by the U directly to the students through Accounts Payable and reported on a 1099 if they reach $600 or more. This type of payment does not impact financial aid packages.

10. Royalty Payments
Students, particularly graduate students, may be eligible to receive royalty payments resulting from the development and marketing of intellectual property rights. All royalty payments to students should be processed through Accounts Payable.

<table>
<thead>
<tr>
<th>Stipend Type</th>
<th>Payment System</th>
<th>Reporting for US Taxpayer Student</th>
<th>Reporting for Nonresident Alien Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalty</td>
<td>Accounts Payable</td>
<td>1099-MISC if ≥ $10</td>
<td>1042-S</td>
</tr>
</tbody>
</table>

11. Internships
Students sometimes receive payments from the U relating to opportunities to engage in internships. Internship opportunities may be located at the U or other external locations. Only internships that are located at the U and under the direction and control of U faculty may be processed through the U systems. If the internship is not under the direction and control of U faculty members, the payments must be processed outside of the U.

See Example 1D – Internship at U; and Example 8C – Internship with third party.

12. Gift Cards or Prepaid Debit Cards
Gift cards and prepaid debit cards are methods of making one of the types of stipend 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. For determining how to report the payment of a gift card or prepaid debit card, look to each section to determine the type of payment that is being made.

Example 12A – Prepaid Debit Card Award: A department provides $25 prepaid debit cards to US Taxpayer students filling the role of human participants. 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 participant roles. Pursuant to the Human Participant 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.

13. Financial Aid Implications
Whenever a student registered at the U receives a non-service-related payment or personal property, it may impact any financial aid the student may be receiving. Following is information Student Finance must provide to students and will follow when determining whether a payment impacts a financial aid package.
The United States Department of Education requires a school’s operations to be administered in a way that ensures all the information the school receives which might affect a student’s Federal Student Aid eligibility is communicated to the financial aid office. In accordance with Chapter 10, pages 2-122 of the US Department of Education’s Financial Aid Handbook, the coordinating offices at the U are the Financial Aid Offices or Offices of Student Finance at each campus and the Director is the coordinating official for each campus. When creating a student’s financial aid package, in order to ensure that a student’s aid does not exceed his or her need, the Financial Aid Office or Office of Student Finance must include all aid the student is receiving from external sources as well as institutional aid and Federal Student Aid (FSA) program assistance. To properly package and most effectively use the various types of student assistance (federal, school, state, private, etc.), we must be aware of all aid received by students attending the school, regardless of the source.

The Higher Education Act of 2008 (the first HEA became law in 1965) defines other financial assistance as any other assistance known to the school. If the assistance was a result of enrollment, but not a result of employment, the school must treat it as a financial aid resource. Assistance is distinguished from reimbursement for expenses. Reimbursement for expenses can only occur if there was a legitimate business reason for the student to have incurred the expense for which they are being reimbursed, not simply as a form of payment for a prize, stipend for travel related to their education, or undefined “other” reason.

The US Department of Education provides over $380 million in financial aid each year to the U campuses. Every year all the Offices of Financial Aid/Student Finance receive two types of audits, one for the over $1 billion in student tuition, fees and financial aid handled and one called A-133 for its documentation of policies and procedures. The A-133 audit is a compliance audit to ensure we have the necessary controls to administer federal and state funds. Failure to meet the requirements of the compliance audit can result in substantial fines as well as the loss of all federal and/or state financial assistance, including sponsored grants, not just financial aid. Part of the compliance audit tests whether or not the office of Financial Aid/Student Finance are able to trace all payments made to students.

14. Contacts
For Tax Management Office questions call 612-624-1053 or email taxhelp@umn.edu
For Office of Student Finance or Student Aid questions on the various campuses:
- Twin Cities and Rochester Campuses: call 612-624-6043 or email saosf@umn.edu
- Duluth: call 218-726-8793 or email umdmschol@d.umn.edu
- Crookston: call 218-281-8569 or email umce-fa@umn.edu
- Morris Campus: call 320-589-6046 or email morrisfa@morris.umn.edu
For Accounts Payable questions on the various campuses:
- Twin Cities and Rochester Campuses: call 612-624-1617 or email finsys@umn.edu
- Duluth: call Business Services at 218-726-7168 or email umdcontroller@d.umn.edu
- Crookston: call Accounts Payable in the Business Office at 218-281-8327 or email umcebo@umn.edu
- Morris: call the Business Office at 320-589-6005 or email sperj@morris.umn.edu
For Payroll Services questions call 612-624-UOHR (8647) or email payroll@umn.edu

*The Information on Taxation of University of Minnesota Non-compensatory Student Stipends document should be used by the department/unit to inform the student recipient that the payment may be taxable income.