DEFINITIONS

Scholarship: an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies (*IRS Publication 970*)

Fellowship: an amount paid for the benefit of an individual to aid in the pursuit of study or research (*IRS Pub. 970*)

All scholarship and fellowship awards are based on either:

- Financial need, or
- Scholastic achievement or promise

No services are performed for UC in return for payments. For tax and payment purposes, the terms scholarship and fellowship are interchangeable.

Compensation: all cash or non-cash remuneration to an employee in return for services rendered for an employer.

Non-employee compensation: all cash or non-cash remuneration for services to an independent contractor.

Awards & Prizes: as applied to payroll, compensation to employees for outstanding achievement or service.

Bonuses: cash compensation or an equivalent provided to an employee in addition to usual compensation.

Grant-in-aid: a grant (a gift for a particular purpose) or subsidy to a school or individual for an educational or artistic project (*Webster's New Collegiate Dictionary*)

In higher education, the term “grant” is generally used to describe a payment, or its funding source, when that source is external, such as the Federal government.

Stipend: a fixed sum of money paid periodically for services or to defray expenses (*Webster's New Collegiate Dictionary*)

In higher education, the term “stipend” is frequently used to describe various kinds of payments, including:

- Compensation paid to graduate assistants (GAs) for services rendered
- Research grants, whether or not services are rendered
- Scholarship and fellowship payments (no services are rendered) used for living expenses
Our college offers a scholarship program for which our undergraduate students can apply. GPA is one of several selection criteria. Winners of this scholarship are asked to take part in a “peer mentoring” program with local high school students, during which the scholarship recipients will encourage the high-schoolers to pursue careers in our academic field, and will also recruit the high-schoolers as prospective students for our college. The $400 scholarship our students receive is not much. How will this scholarship be viewed under Admin. Memo #133?

The recipients are being asked to perform recruiting services for the University, as a condition of receiving the $400 payment. Therefore, the payment is properly classified as compensation for services. The payment is taxable to the recipient, and UC is responsible for withholding appropriate taxes from the payment, which should be processed through our Payroll system. It is not a scholarship.

Under the same scenario, what if we gave the students “book vouchers” which are redeemable only for textbooks in the UC Bookstore, instead of paying them $400 by check?

The form of payment does not change the answer above. The students would be taxed on the fair market value of the book vouchers. The voucher value would need to be “grossed up” for tax purposes, so that the student was taxed on a higher gross amount, such that after the taxes withheld would equal the face value of the book vouchers. In essence, the face value of the book vouchers would equal their net “paycheck”, if you will.

Under the same scenario, what if the UC Alumni Association (who has previously funded our scholarship program) issued the book vouchers or the cash payments directly to the students, instead of the vouchers/payments coming from UC?

The UC Alumni Association is a separate legal entity from UC. However, the control of this program remains UC’s, and the services are being rendered primarily for UC, not for the UC Alumni Association. The issuance of the book vouchers or cash payments directly from the UC Alumni Association, as opposed to coming directly from UC, does not change the character of the payment. It is still compensation for services rendered to UC.

What about our prestigious Cincinnatus Scholarship Program? Aren’t those recipient students also required to perform services as a condition of receiving that money? Are we going to tax all of those students?

Cincinnatus Scholarship recipients are required to perform annually 30 hours of community service, as one condition of renewing their scholarship. That community service can be performed through a number of organizations, including on-campus organizations. Cincinnatus scholars are specifically instructed that they “may not perform on-campus service for which the university would normally pay a wage” and that the “on-campus service must involve a program, project or service that is open to the general public.” The service performed by Cincinnatus scholars is truly “community service” and does not represent services rendered for UC as an employer. Even though Cincinnatus scholars receive their scholarships in various levels (Cincinnatus, Founders, University, Century), the amount of their scholarship is not impacted by whether they perform their community service for an on-campus organization or one with no direct ties to UC.

Because Cincinnatus scholars are not required to perform services for UC, the payments made under the Cincinnatus program are indeed scholarships and should continue to be processed through our Student Financial Aid office.
FAQ - Frequently Asked Questions (continued)

**How will this affect a students' financial aid?**

Students who apply for federal aid are given a cost of education budget by the Student Financial Aid Office (SFAO). This budget includes tuition costs as well as educationally-related costs allowable by federal regulations. Average costs for non-billed costs are determined through surveys by SFAO. The 9-month cost of education budget (tuition and allowable living costs) for 2004-2005 is $22,496 for in-state graduate students and $30,926 for out-of-state. Summer school students receive an additional one-third to bring the budget to 12 months.

If federal aid is received, total aid resources (including scholarship and fellowship funds processed via an E-160) cannot exceed the budgeted cost of education. Federal aid eligibility is determined by the cost of education minus other aid. Therefore, some graduate student federal aid applicants may not be eligible for the full or, depending on the size of scholarship or fellowship funding, any of the $18,500 Federal Stafford Loan.

Given the confusion that many students have over their federal aid eligibility given conflicting information, it is extremely important the all scholarship and fellowships are processed as an E-160 for the full academic year as soon as the amount is determined by the awarding office and the student, if incoming, confirms their admission. E-160 information is fed to the financial aid system allowing SFAO to account for funds when awarding federal aid. If an E-160 is processed following the receipt of federal funds, future loan disbursements are still required to be adjusted to account for the funding. This causes considerable financial hardships for the affected graduate scholar/fellow.

Publications and award letters produced by individual departments regarding graduate scholarships and fellowships should note that these awards can reduce eligibility for federal loan programs.

**How do I pay a fellow who is not a student?**

Pending development of an alternative payment process, use of a PAF to issue a fellowship payment to a UC employee who is not a UC student will continue to be appropriate. For example, it will be possible to pay a true fellowship (not compensation for services rendered) to a faculty member on sabbatical. Such payments are expected to be rare, and will be closely scrutinized. Under no circumstances should a request for a fellowship payment to a UC student be submitted on a PAF.

**Our fellows are paid monthly. How do I determine the amount to pay by term when a month can cross two terms?**

You will need to divide the total amount of the fellowship by the number of terms the student will be enrolled and process an E-160 for this amount.

**How will the student receive their pay?**

10 days before each term Student Accounts processes expense checks for students who have a credit balance as a result of aid that exceeds their balance. The maximum amount a student can receive in total through the third week is $700. At the beginning of the 4th week any remaining balance is paid in a lump sum. Students are encouraged to sign up for direct deposit which will aid in quick access to their funds.
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<thead>
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<th>Payment Type</th>
<th>Pays For</th>
<th>Taxability &amp; Tax Treatment</th>
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<td>Tuition Required, course related: Fees</td>
<td>Not taxable for students who are candidates for a degree</td>
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<td>Books</td>
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<td>Supplies</td>
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<td>Room and board Travel expenses Research</td>
<td>Taxable income to the recipient:</td>
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<td>expenses Clerical help &amp; equipment Other</td>
<td>• Self-reported on the recipient's tax return; no tax withholding</td>
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<td>incidental expenses</td>
<td>• For non-resident alien recipients only, reported on IRS Form</td>
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<td>1042-S, with 14% income tax withheld</td>
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