

Policy 3-22 Rev.  
Date: April 30, 1976

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Subject: **STIPENDS AND TAX EXEMPT PAYMENTS**

**I. PURPOSE**

To establish a policy and related procedures for administering stipends for scholarships and fellowships and for distinguishing tax exempt compensation from taxable compensation payments to students.

**II. DEFINITIONS**

**A. Salaries and Wages**

Payments which represent compensation for past, present or future employment services performed primarily for the benefit of the employer where the work is under the direction or supervision of the employer, whether or not such payments are subject to taxation.

**B. Stipends**

Amounts paid to a graduate, undergraduate, or postdoctoral student as a scholarship, fellowship, financial assistance grant, training grant, or other contribution to support educational or training expenses, including tuition, living costs and other incidental expenses, which will enhance the individual's level of competence in a particular area, and which may or may not be accompanied or supplemented by a full or partial tuition waiver. No employment relationship is created by a stipend, since no services are required.

**C. Dual Role**

The role of a student who concurrently holds a position of employment with the university under which salaries and wages are received during the same period for which a stipend is also received.

**D. Tax Exempt Payments**

Payments, whether or not made as compensation for employment services, which under applicable federal and state law are either not subject to income taxes or are legally excluded from the gross income of the recipient, and do not require payroll withholding for tax purposes.

**III. POLICY**

**A. Conformity With Tax Requirements**

1. It is the policy of the university to undertake to administer payments of salaries and wages and of stipends in conformity with all applicable laws and regulations, including those governing the charging of compensation costs to pertinent contracts and grants and those governing both taxable and tax exempt payments.
2. While this policy and procedure reflects the university's good faith understanding as

to the scope and applicability of pertinent statutes and regulations, the university cannot guarantee that the identification and processing of particular payments as tax exempt will necessarily be approved by tax administrators or the courts.

3. Nothing in this policy and procedure relieves a recipient of payments from the university of his or her personal duty to settle all lawfully imposed tax liabilities. The university will provide recipients with appropriate documents indicating the circumstances relating to and the administrative procedures used in connection with all such payments, but the university cannot provide legal or accounting advice or assistance for recipients in connection with their tax problems.

## B. Administrative Procedures

1. Standards. Unless the vice president for administrative services, for good cause, approves an exception in a particular case, the university will administer payments that are believed to be tax exempt in accordance with the standards and procedures provided herein.
2. Payments to foreign students will be administered in the following manner:
  - a. Upon satisfactory evidence that under a treaty or other agreement with a foreign country of origin, a foreign student is entitled to tax exemption or tax immunity with respect to salaries and wages, the university will make such payments on a tax exempt basis through the payroll system.
  - b. If a foreign student is unable to establish entitlement for tax exemption or tax immunity under paragraph a., payments to that student will be administered on the same basis as like payments to other students.
3. Payments to students who are candidates for a degree will be administered in the following manner:
  - a. Stipends will be paid as tax exempt payments through the accounts payable system, subject to the requirements of Section IV A, below.
  - b. Salaries and wages will be paid on a taxable basis through the payroll system, unless such payments are certified in advance as eligible for treatment as tax exempt payments pursuant to paragraph c. below.
  - c. Salaries and wages for teaching, research, or other services in an employment capacity will be deemed eligible for tax exemption under section 117(b)(1) of the Internal Revenue Code, and will be paid through the payroll system as tax exempt payments, if there is on file in the Employee Services Center, a properly executed and signed Certification of Conformance with Tax Exclusion Requirements applicable to such payments (see Section IV B below), certifying that all of the following conditions are satisfied:
    - (1) The recipient was a candidate for a specified degree at the university during the period when the services were performed.
    - (2) The teaching, research, or other services for which the salaries or wages are payable were performed for the university in satisfaction of existing specifically stated and officially approved requirements for that degree.
    - (3) Equivalent services were required of all candidates for the same degree.

- (4) The services performed were not in excess of those necessary to satisfy the stated requirements for that degree.
  - (5) The salaries or wages are not payable because of past services, and are not conditioned on or subject to any understanding with respect to future services or employment, or other obligations, not equally imposed on all candidates as degree requirements.
  - (6) The recipient requests and is eligible for exemption from social security act (FICA) coverage and payroll withholding requirements
  - d. If all the conditions for tax exempt payment of salaries and wages, as specified in paragraph c. above are not satisfied, such payments will be made through the payroll system, subject to all applicable tax and FICA withholding requirements, whether or not the recipient is in fact eligible for tax exemption thereon. In such cases, the recipient may seek a refund of taxes from the appropriate tax authority by establishing eligibility for tax exemption.
  - e. Payments to foreign students will be administered in accordance with section III B2, above.
  - f. Payments to students in a dual role will be administered in accordance with the policies applicable to the respective payments and subject to the conditions thereof, i.e., stipends will be paid through the accounts payable system, and salaries and wages through the payroll system, in accordance with this section III B3.
4. Payments to students who are not candidates for a degree, including postdoctoral fellows, will be administered in the following manner:
- a. Stipends will be paid as tax exempt payments through the accounts payable system, provided that:
    - (1) There is on file in the Controller's Office a properly executed and signed Application for Stipend applicable to such payments certifying that they are eligible for exclusion from gross income pursuant to Internal Revenue Code section 117(b)(2) or other applicable law.
    - (2) The recipient of the stipend acknowledges in writing that such payments, when made by the university on a tax exempt basis, may exceed the limitations allowed by law for gross income exclusion (ordinarily \$300 per month not to exceed a total of 36 months), and agrees that the recipient will be responsible for settling with the appropriate tax authorities any tax liabilities resulting from the absence of tax withholding by the university on such excess amounts.
    - (3) The university will report the total stipends paid under this section on an annual basis to the Internal Revenue Service on IRS Form 1099.
  - b. All salaries and wages will be paid on a taxable basis through the payroll system, except where the recipient is a foreign student eligible for tax exempt payments under section III B2, above.
  - c. Payments to students in a dual role will be administered in accordance with the policies applicable to the respective payments and subject to the conditions thereof, i.e., stipends will be paid through the accounts payable system, and

salaries and wages through the payroll system, in accordance with this section III B4.

#### IV. PROCEDURES

##### A. Stipends

1. Payments will be classified as stipends, and will be paid through the accounts payable system as tax exempt payments, if there is on file in the Controller's Office a properly executed Application for Stipends.
2. Stipend payments will be made once per month based on documentation on file or submitted during the preceding month, and will normally be processed for distribution on or before the 10th day of the month.

##### B. Salaries and Wages

1. All recipients of salaries and wages, whether or not qualified to receive tax exempt payments, must be documented by a properly executed Personnel Action Form on file in the Employee Services Center.
2. All amounts payable as salaries and wages, whether or not entitled to be administered as tax exempt payments, must be documented on a Time and Attendance Report or on an Exempt Salaried Roster submitted to the Employee Services Center.
3. If eligibility for tax exemption is claimed with respect to salaries and wages for any employee, the responsible employing authority must cause to be filed in the Employee Services Center, in addition to the applicable Personnel Action Form, either:
  - a. a properly executed Tax Exemption Certificate which demonstrates eligibility for tax exemption due to foreign student status under Section III B2, above; or
  - b. a properly executed Certification of Conformance with Tax Exclusion Requirements which demonstrates that all of the conditions of eligibility for tax exempt payments under section III B3c. above, are satisfied.
4. All salaries and wages, whether or not treated as tax exempt will be paid on a biweekly basis, as part of the university's regular payroll.

##### C. Special Documentation of Eligibility for Tax Exempt Salaries and Wages

1. The titles "graduate research assistant" and "graduate teaching assistant," and related job classification numbers, are reserved for use to designate graduate or professional students in an employment relationship to the university whose eligibility for tax exempt payments of salaries and wages has been established pursuant to this policy and procedure statement. The titles "research assistant" and "teaching assistant," and related job classification numbers, will be used to identify such students for whom eligibility for tax exempt payments of salaries and wages has not been established.
2. Before an academic department submits Personnel Action Forms for employment of graduate research assistants or graduate teaching assistants, the department chairperson must submit to the dean of the graduate school a written statement, approved by the dean of the college, specifically describing the minimum academic requirements in the form of research, teaching, or other service to the university

which all candidates for each degree offered by that department must uniformly satisfy as a condition to receiving that degree. The dean of the graduate school will review all such departmental statements and approve those which are found to be in conformity with university academic policies and with the requirements of section 117(b)(1) of the Internal Revenue Code, and will transmit copies of all such approved statements to the vice president exercising academic cognizance over the department.

3. After the departmental statement of academic requirements, submitted under paragraph 2 above, has been approved by the dean of the graduate school, the department may document the employment of a graduate research assistant or graduate teaching assistant by submitting a Personnel Action Form, and accompanying Certification of Conformance With Tax Exclusion Requirements, to the office of the cognizant vice president, for approval and transmittal to the Employee Services Center.
4. The cognizant vice president or designee thereof will review the documents submitted under paragraph 3 above, and approve those which are found to be consistent with the approved departmental statements of academic requirements and with the requirements of section III B3c of this policy and procedure statement. The documents, bearing the vice president's approval, will then be promptly transmitted to the Employee Services Center for processing into the payroll system to support tax exempt payments of salaries and wages to the employee.
5. Payments of salaries and wages that qualify as tax exempt payments are chargeable to federal research contracts and grants, provided all such payments are supported by Time and Attendance Reports, Exempt Salaried Roster Reports, and percent of effort reports submitted on a regular basis to the Employee Services Center.

#### D. Erroneous Certifications

In the event that an erroneous certification is made of eligibility for a stipend or tax exempt payment, which results in liability of the university to any person or governmental agency, the university reserves the right to charge such liability, in whole or in part, to the department responsible for the error, if it is determined that the error was made negligently or in bad faith.

Approved: Institutional Council 4/12/76