

LAFAYETTE COLLEGE

Disbursements to Students

Lafayette College (“the College”) makes payments to students for various types of activities. This includes scholarships, compensation for services, research, training and other education-related activities. In awarding and processing such payments, care must be taken to classify these payments correctly for tax purposes. This document addresses types of payments made to our undergraduate students, including scholarships, fellowships, stipends, prizes and awards, compensation for services, drawings, refunds, and reimbursements. Additionally, this document defines which type of payment is taxable income to the student and which payments the College must report to the Internal Revenue Service (IRS). This information can also be viewed via our decision tree by clicking this [link](#).

Reporting and taxation of student payments are governed by the Internal Revenue Code and Treasury Regulations and enforced by the Internal Revenue Service (IRS).

For example, scholarships/fellowships are not taxable to the extent they do not exceed the cost of tuition, fees, and course-required expenses (fees, books, supplies, equipment) as long as the student is a candidate for a degree. These non-taxable amounts are called **qualified education expenses**. Amounts in excess of qualified education expenses are taxable to the student, such as room/board, travel, research, living allowance, etc., and are called **non-qualified education expenses**.

Following are definitions and procedures to be used and clarifies the income tax implications for receiving such payments.

Definitions

Compensation for Services Related to Work

This category is defined as payments made for services, teaching, research and/or other activities performed for the benefit of the College, including activities for the College that may be associated with the student’s course of study and educational experience. This includes students with Federal Work Study awards and those without. 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. The funds are considered taxable income to the recipient and are reported as taxable income by the College on Forms W-2.

Method of Payment: [Student Payroll](#), For forms see: [Are you in charge of hiring student workers?](#)

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Definition of Student Workers

A student worker is a part-time employee who is duly enrolled at Lafayette College, is registered for classes and whose primary purpose for being at the College is the achievement of a degree or certification. (See [Internal Revenue Notice 2004-12 Section 7. Definitions](#) for guidelines and FICA exceptions.)

Scholarship or Fellowship

These terms are used interchangeably with the term “scholarship” used by the Internal Revenue Service (IRS) to refer to both taxable and non-taxable payments to students. There are three classifications:

- 1. Qualified**

- 2. Non-Qualified**

- 1. Qualified Scholarship/Fellowship**

This category includes payments to the student (those in a degree program) or credits to a student’s account used only for “qualified tuition and related expenses,” which are limited to tuition and required fees. Qualified fellowships are not taxable income to the student. Qualified awards do not exceed stated tuition and fees amounts. Qualified scholarships and fellowships are reported by the College on Form 1098-T. Reporting is not required on a 1042-S. Income Code 15, Exemption Code 2 (1042-S) for international students.

- 2. Non-Qualified Scholarship/Fellowship**

A non-qualified scholarship or fellowship is a scholarship/fellowship payment used for expenses that are not qualified tuition or related expenses (e.g., amounts used to pay optional fees, room, board, travel, and personal expenses). All non-qualified scholarship/fellowship payments are potentially subject to income tax withholding and subject to reporting on IRS Form 1098-T or IRS Form 1042-S. The student should always maintain the documentation necessary to support information reported to the Internal Revenue Service (IRS).

Method of Payment: Processed by [Financial Aid](#) and posted to the [Student Account](#)

Student Refund

This term is used to describe the processing of a payment to a student resulting from a credit balance on the student account. The term is also applied to the payment to the student for Title IV proceeds

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(SEOG, Pell Grants, and Federal Direct loans) in excess of the amount of tuition and fees, room and board, and other authorized charges.

Method of Payment: [Student Accounts](#) processed refunds by check or direct deposit.

Prizes and Awards

Prizes and awards are payments in recognition of charitable, scientific, educational, artistic, literary, or civic achievement, or are received as the result of entering a contest. Recipients are selected based on their actions to enter a contest, competition or proceeding. Drawing gifts or monetary payments are also classified as prizes. Prizes and awards are always taxable. If certain dollar thresholds are satisfied, the College will report the prize or award to the IRS and the student on [IRS Form 1099-MISC, Miscellaneous Income \(PDF from IRS.Gov\)](#), or on [IRS Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding \(PDF from IRS.Gov\)](#)

Method of Payment: Accounts Payable using the [Departmental Student Payment Form](#)

Stipend

This term describes a living allowance and is generally taxable. For example, the payments may be used to support living expenses while pursuing an externship, or independent research at another institution. In no instance is a stipend a payment involving services as it relates to work. The College does not benefit from the student's activity. Stipends include payments to the student or credits to a student's account other than those defined as non-taxable fellowships. The funds may be considered taxable income to the recipient who is a US Person for tax purposes, but are not reported as taxable income by the College on Forms W-2 or 1099-MISC. The funds may also be considered taxable income to the recipient who is a Non-resident Alien (NRA) for tax purposes and are reported as taxable income by the College on Form 1042-S (reporting for Non-Resident Aliens, "NRA's".)

Method of Payment: Accounts Payable using the [Departmental Student Payment Form](#)

Trainee Fellowship

Payments in this category aid in the pursuit of an individual's study or research. No past, present, or future services are expected in return for the support. The funds may be considered taxable income to the recipient, but are not reported as taxable income by the College on Forms W-2 or 1099-MISC. However, depending on the circumstances of the payment, payment may be reported on IRS Form

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1098-T, Tuition Statement or on IRS Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding. If the trainee fellowship payments to the student or credits to a student's account are used only for tuition and required fees, they are reportable to the Internal Revenue Service (IRS) by the College via Form 1098-T. Trainee fellowships may constitute taxable income to the fellow/trainee to the extent there are no offsetting qualified educational expenses. (Tuition and required fees are qualified educational expenses; room, board, living expenses and travel are not qualified educational expenses.)

Method of Payment: Accounts Payable using the [Departmental Student Payment Form](#), and in rare cases, through Financial Aid to the student's account.

Research Subject Participant Payments

Students who participate by being the target of observation, interaction, or intervention by researchers may receive participant payments. These payments are always taxable. If certain dollar thresholds are satisfied, the College will report the payment to the IRS and the student on [IRS Form 1099-MISC, Miscellaneous Income \(PDF from IRS.Gov\)](#), or on [IRS Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding \(PDF from IRS.Gov\)](#)

Method of Payment: Accounts Payable using the [Departmental Student Payment Form](#), or if in the form of a gift card, using the [Cash Equivalent Prize and Award Distribution Log](#)

Student Reimbursements

Students who incur costs for approved activities that primarily benefit the College may be entitled to reimbursement. Student reimbursements for approved expenditures incurred are not considered reportable as taxable income to the IRS.

Method of Payment: Accounts Payable using the [Departmental Student Payment Form](#)

Questions?

Please feel free to reach out to the Controller's Office if you are unsure of what payment type to use. We can be reached at finance@lafayette.edu.

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