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Information on Taxation of University of Minnesota Non-compensatory Payments to Students

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Introduction

A scholarship/fellowship payment that is made without any regard for services rendered is non-compensatory. The primary purpose of the non-compensatory payment is to support the study or research that furthers the education and training of the recipient. Neither the fact that the recipient is required to furnish progress reports, nor the fact that the results of the recipient's studies or research may be of some incidental benefit to the University, by itself, will be considered to destroy the essential character of the payment as non-compensatory. Non-compensatory payments are not wages and do not create an employer-employee relationship.

Non-compensatory payments are taxable income to the recipient, except for the portion of these funds used for tuition, books, fees, equipment, and supplies required for the courses being taken. The recipient is responsible for tracking the costs of tuition and other required university fees, books, supplies, equipment, and similar expenses.

Payments to US Citizens and Residents for Tax Purposes

The University is not required to report non-compensatory payments to the recipient or the Internal Revenue Service (IRS), so the recipient will not receive a W-2 or 1099 listing the non-compensatory payments received.

Because the payments may be taxable income, however, the recipient should collect relevant information on payments received and eligible expenses for offset throughout the year in order to be able to identify any taxable income.

No taxes are withheld from the non-compensatory payments, so the recipient may need to make estimated quarterly tax payments to the IRS. Information on how to file federal estimated income tax withholding is available on the Office of Human Resources Tax Information for Non-Service Fellowships website.

Payments to Nonresident Alien Recipients

Nonresident alien recipients of non-compensatory payments may be subject to federal tax withholding. The University is required to report information annually to the recipient and the IRS on Federal Form 1042-S. The student recipients should collect relevant information on payments received and eligible expenses for offset throughout the year in order to be able to identify any taxable income. Nonresident alien recipients are responsible for filing a nonresident tax return (1040-NR) on which a refund of any excess taxes withheld may be claimed. Additional information is available on the Office of Human Resources Tax Information for Non-Service Fellowships website.

Additional Information at IRS.gov

- Publication 519 – U.S. Tax Guide for Aliens
- Publication 901 – U.S. Tax Treaties
- Publication 970 – Tax Benefits for Education