RCUH Research Corporation of the University of Hawai'i

Tax Treatment of Non-Service Financial Assistance for Individuals Decision Tree

This decision tree provides a summary of the tax reporting and withholding requirements for non-service financial assistance provided to individuals. RCUH Policy 2.006 Tax Treatment of Non-Service Financial Assistance for Individuals, provides more detailed guidance and, therefore, must be read in conjunction with this decision tree. **All scholarship/fellowship payments made to or on behalf of UH students (including UH postdoctoral fellows) are required to be processed through UH.**

Start Here

Is the non-service payment for:
1. Scholarship/fellowship (for the pursuit of studies or research); or
2. Other Income
   a. Research study/clinical trial participant,
   b. Prize/award, or
   c. Other miscellaneous.

Other Income →

Is the recipient a:
1. U.S. citizen, permanent resident alien (PRA), or resident alien (RA); or
2. Nonresident alien (NRA)?

U.S.; PRA; RA →

If $600 or greater (or cumulative payments for the calendar year are $600 or greater) report on IRS Form 1099-Misc. If the $600 or greater payment was made using a third-party vendor, provide RCUH Accounting with the recipient's IRS Form W-9 and amount paid.

NRA →

Payments must generally be withheld at 30% unless an exclusion applies; a payment of any amount must be reported on an IRS Form 1042-S, regardless of whether an exclusion applies.

Was a third-party payment made?

No → No changes.

Yes →

- No tax reporting is required. However, because the payments may be taxable:
  - Programs must respond to requests from recipients regarding the amounts received (welcome letters should indicate who at the program should be contacted).
  - If a third-party payment is made to a vendor on behalf of the recipient, it is recommended that programs track the amount received by each recipient.
- Certain scholarships/fellowships may be excluded from income (example: General Welfare Exclusion). Programs may inform recipients of the applicable exclusion that may apply, and suggest that they consult with their own tax advisor.
- All payments to resident aliens must be submitted manually to RCUH Disbursing.

Scholarship/Fellowship →

Is the scholarship/fellowship "qualified" (i.e., is the answer "yes" to **each** of the following three statements)?
1. The recipient is attending a degree granting educational institution.
2. The scholarship/fellowship is for study/research at the educational institution.
3. The scholarship/fellowship is for tuition, fees, books, supplies, or equipment required for enrollment.

Yes →

The payment is considered a "qualified" scholarship/fellowship:
- Payments are excluded from the recipient's income.
- No reporting on IRS Form 1099-Misc or 1042-S is required.
- Payments
  - Use a purchase order (PO) when paying the educational institution directly.
  - Use the Non-Employee Expense Payment Form if the expense is being claimed as a reimbursement.
- U.S. citizens and permanent resident aliens – Payments may be approved online.
- Resident aliens and nonresident aliens – All payments must be submitted manually to RCUH Disbursing.

No →

The payment is considered a non-qualified scholarship/fellowship, and the payment may be subject to tax reporting and/or withholding.
- It is preferable that all non-qualified scholarship/fellowship payments be made directly to a recipient on the Non-Employee Expense Payment Form.

Have the recipient complete a UH Form WH-1 to determine whether the recipient is a:
1. U.S. citizen, permanent resident alien (PRA), or resident alien (RA); or
2. Nonresident alien (NRA).

U.S.; PRA; RA → (see above)

NRA →

Is the study/research taking place outside the U.S. (50 states and D.C.)?

Yes →

The payment is considered foreign source income to the recipient:
- Tax withholding is not required.
- Tax reporting is not required.
- The payment must still be submitted manually to RCUH Disbursing.

No →

The payment is considered U.S. source income to the recipient:
- All payments to nonresident aliens must be submitted manually to RCUH Disbursing.
- Tax reporting on an IRS Form 1042-S is required (for any amount, and even if the amount is excluded).
- Tax withholding at 30% is required unless:
  - The recipient attends a degree granting educational institution on an F, J, M or Q visa – then the rate is 14%. If the recipient will also be in the U.S. for 365 days or less, an additional reduction on withholding may be available.
  - There is an applicable tax treaty that reduces or eliminates the withholding.
  - The funding source is a USAID grant – then the rate is 0%.
- Even if an exclusion (such as the General Welfare Exclusion) may apply, because its application depends on each individual recipient's facts and circumstances, RCUH cannot make the determination, and will withhold/report as required.

Is the payment made to a third-party vendor (or through a third-party arrangement such as a cash advance), rather than directly to the recipient?

Yes →

- For cash advances, programs should withhold taxes prior to the disbursement.
- Third-Party Vendor
  - If the recipients' tax residency statuses are known, the amount due the vendor must be grossed-up to account for the tax owed at the time of payment to the vendor.
  - If the recipients' tax residency statuses are unknown, payments to U.S. vendors may be approved online, but they must be processed as though they were an advance, so the payment can be tracked and grossed-up when the advance is cleared.

No → No changes.