

THE TAXATION OF FELLOWSHIP INCOME

[NOTE: Rutgers University does not provide individual tax advice. This publication is provided solely for informational purposes. Individuals must consult their own tax advisors regarding all personal tax obligations. Nothing contained herein constitutes legal or tax advice. The Office of the Tax Director does not entertain personal requests for tax determinations of any kind.]

Fellowships.

The term “fellowship” encompasses a broad range of payments that might be received by an individual. Internally, Rutgers University (the “University”) refers to such payments under a broad range of terms including, but not limited to, stipends, fellowships, allowances, and participant support payments. The purposes for such payments are also quite broad and encompass items such as reimbursement or payment of expenses (including travel expenses paid to or for an individual), credits against a term bill, or a reduction in the amount owed to the University related to an individual’s studies or research.

The term applied by the University department requesting such payment or the division of University Finance & Administration remitting the payment has absolutely no bearing on the characterization of the payment for Federal income tax purposes. Furthermore, under Federal income tax law, any such payment represents taxable income to the recipient absent a specific exception pursuant to the Code.¹

Whether a Fellowship Constitutes Taxable Income to the Recipient.

In order for a fellowship to be exempt from Federal income taxation under current law, the fellowship must satisfy the following conditions²:

1. It is remitted to or for an individual, who is a candidate for a degree (i.e., undergraduate or graduate students - **not** post-doctoral level individuals) at an established educational institution (i.e. the University); and
2. The fellowship is used for “qualified tuition and related expenses” (“QTRE”).

QTRE only includes tuition and fees required for the student’s enrollment or attendance at the University. Amounts granted for the following items are examples of expenses which would not qualify as amounts used for QTRE:

- Room and/or board,
- travel,
- clerical assistance,
- equipment, and
- any incidental living expenses.

¹ All references to the Code refer to the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereto.

² Code Section 117

As stated above, any amount granted to a person who is not a candidate for a degree (such as fellow who holds a doctoral level degree) will be taxable for Federal income tax purposes.

Furthermore, a fellowship will not be exempt from income taxation if the grant is conditioned upon the recipient performing services. NRSA fellowship grants represent an exception to this general rule (because they fund original independent study by the recipient are not for the benefit of the University). All non-NRSA grants must be evaluated on a case-by-case basis.

Whether a Fellowship is Subject to Tax Withholding.

Wage (FICA) Withholding:

Fellowship income is only subject to withholding (including for FICA taxes) if the amounts paid constitute “wages” (as defined for employment tax purposes). Whether a fellowship represents an employer-employee relationship is a determination that must be made on a case by case basis. However, as a general matter, fellowships that fall within the exemption described above will not be subject to withholding taxes unless the recipient is a non-resident alien.

Withholding on Payments to Non-Resident Aliens:

Any payments (including fellowship payments that would generally be exempt from tax) to non-resident aliens are subject to income tax withholding. The default rate, absent an applicable exception, is thirty percent (30%) of the amount of the payment. The withholding rate is decreased to fourteen percent (14%) if the recipient holds a valid F, J, M, or Q visa. The rate may be further reduced or eliminated by applicable treaty provisions contained in the provisions of a tax convention with respect to income tax between the United States of America and the payee’s country of residence. In certain instances, the University might not accept the payee’s claim for a further reduction in withholding. In such cases, the payee will need to file an income tax return with the Internal Revenue Service in order to claim the treaty benefit and request a refund of taxes withheld. If a non-resident alien becomes a citizen or resident alien, the University will cease withholding taxes from payments to such individual.

Payment of Estimated Taxes by Recipients.

U.S. citizens and resident aliens who are recipients of fellowship payments that are not treated as “wages” will not be subject to withholding taxes.³ Consequently, such recipients must consider whether they are subject to the requirement to make quarterly estimated tax payments. Recipients must consult their personal tax advisors in order to make this determination.

[Note Regarding legacy UMDNJ program Post-Doctoral Fellows: The former UMDNJ erroneously withheld taxes on payments to certain Post-Doctoral fellows whose awards did not constitute wages. This was discovered during the integration of financial systems and during the

³ Generally, the University will issue a “Letter of Earnings” that summarizes the amounts remitted to a fellowship recipient during the calendar year (however there is no requirement for the University to do so). It is the recipient’s responsibility to determine their own tax liability and remit the appropriate income tax payments.

2017 calendar year this process was ended. Post-Doctoral fellows who received a return of previously withheld taxes during the 2017 calendar year must determine whether they are responsible for remitting estimated tax payments. In all instances, such recipients should endeavor to pay any outstanding estimated tax liabilities by the due date for the 4th Quarter 2017 estimated tax payment (January 16, 2018) (see IRS Form 1040-ES).

Additional Forms and Publications can be found on the Internal Revenue Service website: www.irs.gov. Useful selections that can be searched and downloaded include:

- Publication 970, Tax Benefits for Education,
- Publication 54, Tax Guide for U. S. Citizens and Resident Aliens, and
- Publication 519, U. S. Tax Guide for Aliens.