

TAXATION OF SCHOLARSHIPS AND GRANTS

The Tax Reform Act of 1986 defined scholarships, grants, fellowships, stipends, internships, and prizes as taxable income, but the regulations provide that *qualified* scholarships and fellowships are not subject to taxation. To be a *qualified* scholarship/grant the payment or allowance must be used solely for tuition, enrollment fees, or related expenses. Related expenses include fees, books, supplies and equipment required for course work, but only if they are required of all students in a particular course of instruction. The only *qualified* scholarship /grant program that is administered or processed by the college is the New York State Tuition Assistance Program (TAP). However, if the combination of TAP, Federal Pell and SEOG, Vassar Scholarship and other grants or scholarships exceeds tuition and fees the excess may be taxable income, unless related expenses for books and supplies absorbs the excess.

If any part of the total scholarships/grants received is taxable (exceeding tuition, fees, and related expenses), it is to be treated as earned income by the recipient. The grantor is not required to withhold taxes, or issue a Form 1099 for U.S. Citizens or permanent residents. Vassar College will issue IRS Form 1098T to these students, showing qualified tuition and fee charges for the tax year and scholarships administered or processed by the college.

Scholarships awarded to *non-resident aliens* (Vassar's international students) are subject to withholding by the grantor (the college) at 14% on the difference between tuition and fees and total scholarships/grants awarded. The grantor must also report the withholding on Form 1042S. The Federal Withholding Tax will appear on the college bill. This tax is factored into the financial aid offered by the college.

All students, regardless of citizenship status, will need to maintain copies of relevant bills, receipts, canceled checks or other documentation related to books and supplies. These are considered allowable expenses for reducing the taxable portion of total scholarships that may exceed tuition and fees.

Example

Tammy Graves receives \$10,000 in scholarship/grants that is not designated for any specific use. Tammy is a degree candidate. She spends \$8,000 for tuition and \$700 for her books and supplies. Tammy is required to report \$1,300 as taxable income.

For further information contact either the IRS for its Publication 570 or the person who prepares your tax return.