

ATTACHMENT B

Procedure

Non-Resident Alien Fellowship Recipients

Non-Resident alien graduate students who receive a fellowship in excess of mandatory costs of attending school (tuition, books, mandatory fees) are subject to backup withholding of federal taxes per Internal Revenue Service regulations. The following procedure is to be used to determine if the recipient is subject to the taxes, and the method to be used to process the fellowship for those who are subject to taxes.

Is the recipient eligible for exemption from taxes?

TREATY EXEMPTIONS

Attached is a list of countries that have treaties with the U.S. that exempt fellowship recipients from taxes. If the fellowship recipient's tax country is listed, the individual will be exempt from taxes upon filing a Form 1001 with the payroll office. If he/she does not submit Form W-8BEN, the fellowship will be subject to taxes at 14%. If the recipient is not subject to taxes due to a treaty exemption and has filed Form W-8BEN with the payroll office, the fellowship may be processed as is normal for U.S. citizens.

FELLOWSHIP SOURCE EXEMPTIONS

Fellowships funded from a USAID grant OR from sources outside the United States are not subject to backup withholding of taxes, and may also be processed as is normal for U.S. citizens.

If the non-resident alien fellowship recipient is NOT exempt from taxes the following steps must be taken:

1. Determine the taxable portion of the fellowship:
 - a. Summarize non-taxable costs for the academic period that the fellowship pertains to. Non-taxable costs include tuition, **MANDATORY** fees, and costs of books. Mandatory fees are defined as required fees to attend school and include such fees as lab fees, student health fees, and student center fee. Other costs such as housing fees and dining plans are not considered mandatory.

Example: Fall Semester 2007

*Fellowship Amount:

Stipend	\$7,000.00
Tuition	<u>8,264.00 (A)</u>
Total Fellowship	\$15,264.00

Less:

Non-taxable costs:

Tuition:	\$8,264.00
Bookstore Charges	\$700.00
Mandatory Fees:	
Student Health Fee	\$220.00
Student Center Fee	<u>\$107.00</u>
Total Non-Taxable	<u>\$9,291.00 (B)</u>

Taxable Fellowship Amount \$5,973.00 (C)

2. On the JED, use object code 122700 and the class with earnings code NFN to report the NON-TAXABLE portion of the stipend. For the TAXABLE portion of the stipend, use account code 122700 and the same class with earnings code NRT. For example, in the above sample amounts, the student would have a total stipend payment for the semester of \$7,000. In submitting the JED, \$5,973.00 should be charged to an account using object code 122700 earnings code ___ (and line number). The \$5,973.00 will be taxed at a standard 14% under IRS regulations.

NOTE: The figures above are examples only. The amounts may change for each student.

*Usually fellowships include a stipend paid to the student and the tuition amount credited to the student's account. For this purpose, combine the two to determine the total fellowship amount, as some recipients may only receive a portion of their tuition under a partial fellowship, but the full tuition charged to the student may be considered for non-taxable costs of attending school.

Worksheet
Non-Resident Alien Fellowship Recipients
NOT EXEMPT FROM TAXES

Name of Student: _____ Employee ID: _____

Department: _____

Year and Semester: _____

Fellowship Amount: Stipend \$ _____
 Tuition \$ _____ (A)
 Total Fellowship \$ _____

Less: Non-Taxable Student Costs for Relevant Semester:

Tuition \$ _____
Books _____

Mandatory Fees:

Student Health Fee _____

Student Center Fee _____

Lab Fee _____

Other: _____

Total Non-Taxable _____ (B)

Taxable Amount* \$ _____ (C)

On JED – Charge (B as noted on previous page) minus the Fellowship tuition amount (A as noted on previous page) to account code 122700 and earnings code NFN. Charge (C as noted on previous page) to account code 122700 and earnings code NRT. The totals should equal the stipend amount of the Fellowship.

Total NFN (\$9,291.00) divide by the number of pay period(s) the student is to be paid. This amount should be entered on the JED funding line with an earnings code of NFN. Total NRT (\$5,973.00) divide by the number of pay period(s) the student is to be paid. This amount should be entered on the JED funding line with an earnings code of NRT. The NFN and NRT amounts should total the stipend to be paid each period.

*NOTE: If (C) is a negative number, there is no taxable fellowship amount and the full stipend should be charged to account code 122700 and earnings code FEL.

Cc: Payroll Office

Attach copy of this worksheet to JED when processing.