

ATTACHMENT A

Procedure

Non-Resident Alien Scholarship Recipients

Non-resident alien undergraduate students who receive a scholarship and do not receive a stipend (cash payment), will have the taxable portion of the scholarship grossed up to cover required withholding of taxes. This means that, at the current tax rate of 14%, the taxable portion of the scholarship amount should be divided by .86 to determine the total scholarship amount.

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 scholarship and fellowship recipients from taxes. If the scholarship recipient's tax country is listed, the individual will be exempt from taxes upon filing a Form W-8BEN with the payroll office. If he/she does not submit Form 1001, the scholarship 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 scholarship may be processed as is normal for U.S. citizens.

SCHOLARSHIP SOURCE EXEMPTIONS

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

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

1. Determine the taxable portion of the scholarship (worksheet attached):
 - a. Summarize non-taxable costs for the academic period that the scholarship pertains to. Non-taxable costs include tuition, MANDATORY fees, and costs of books. Mandatory fees are defined as the 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 and are taxable to the recipient if covered by the scholarship.

Example: Fall Semester 2006

Initial Scholarship Amount:		\$8,535.00
Less:		
Non-taxable costs:		
Tuition:	\$5,625.00	
Bookstore Charges	\$300.00	
Mandatory Fees:		
Student Health Fee	\$130.00	
Comprehensive Fee	\$40.00	
Student Center Fee	<u>\$50.00</u>	
	\$6,145.00	
	Taxable Scholarship Amount	\$2,390.00

2. Gross up the taxable portion of the scholarship so that required backup withholding taxes of 14% are included in the scholarship amount.

Gross up procedure:

Taxable scholarship Amount (from 1)	\$2,390.00
Divide by .86	<u>/.86</u>
Total taxable amount	\$2,779.07
Taxes to be withheld	<u>\$389.07</u>

3. Adjust the initial scholarship amount to include the backup withholding taxes.

Initial Scholarship Amount	\$8,535.00
Add: Taxes to be withheld	<u>389.07</u>
Adjusted Scholarship Amount	<u>\$8,924.07</u>

The \$8,924.07 is the full amount of the scholarship that you should credit to the student's account.

4. Financial Aid is provided appropriate taxes due which they add to the student's account for payment. If the Department or Financial Aid elects to "gross up" the scholarship to cover the taxes due, Financial Aid will also adjust the scholarship amount.
5. NOTE: The figures above are examples only. The amounts may change for each student.

Worksheet
Non-Resident Alien Scholarship Recipients
NOT EXEMPT FROM TAXES

Name of Student: _____ SSN: _____

Department: _____

Year and Semester: _____

Initial Scholarship Amount: \$ _____ (A)

Non-Taxable Student Costs for Relevant Semester:

Tuition	\$ _____
Books	_____
Mandatory Fees:	
Student Health Fee	_____
Comprehensive Fee	_____
Student Center Fee	_____
Lab Fee	_____
Other:	
_____	_____
_____	_____
_____	_____

Total Non-Taxable _____ (B)

Summary:	Initial Scholarship Amount	\$ _____ (A)
	Less: Non-Taxable costs	_____ (B)
	Taxable at 14%	\$ _____ (C)
	“Grossed up” amount (C) / .86	\$ _____ (D)
	Add back: Non-Taxable	\$ _____ (B)
	Total Scholarship	\$ _____

FFAR Form to be Prepared to Withhold Required
Taxes For:

“Grossed up” amount	\$ _____ (D)
Deduct Taxable at 14%	_____ (C)
Taxes to be Withheld	_____

Cc: Payroll Office