SAINT MARY'S
COLLEGE OF CALIFORNIA

GUIDE TO STUDENT PAYMENTS AND RELATED REPORTING AND TAXABILITY

Student Payment Process

Scholarships, Fellowships / Study Grants, Payroll Compensation, Prizes, Awards and Reimbursements

Saint Mary's College of California (SMC) makes various payments to students for compensation, research, and other education-related activities. In awarding and processing such payments, care must be taken to classify these payments correctly for tax purposes. This guide addresses the types of payments made to students, including scholarships, fellowships / study grants, reimbursements, payroll compensation, refunds, prizes and awards. Additionally, this guide defines which type of payment is taxable income to the student and which payments the College must report to the Internal Revenue Service (IRS).

1. SCHOLARSHIPS

A scholarship is generally an amount paid or allowed, or for the benefit of, a student at an educational institution to aid in the pursuit of his or her studies. Scholarships can be need or merit based and are provided to cover the cost of attending SMC as calculated by the Financial Aid Office.

- Scholarships are processed by the Financial Aid Office.
- General Ledger Account Codes to be used: (TBD by Financial Aid)
- Annual Tax Reporting:
  - Scholarships are reported by the Director of Student Accounts annually on a Form 1098-T for US Citizens and Resident Aliens*.
  - Scholarships are reported by the Director of Payroll and Tax Compliance annually on a Form 1042-S for Nonresident Aliens

In general, scholarships are not taxable income as long as the funds are used for "qualified" expenses. A qualified expense is required tuition, fees, books, supplies, and other assessments required for all students. Expenses, such as room and board are considered non-qualified and therefore scholarships that cover room and board are taxable to the student. Publication 970 of the Internal Revenue Code (IRC) covers the rules for the taxation of student payments related to scholarships for US Citizens and Resident Aliens while IRC 1441(b) covers the rules for the taxation of student payments related to scholarships for Nonresident Aliens*

2. FELLOWSHIPS / STUDY GRANTS

A **fellowship / study grant** is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research or grant-funded training or educational activities. At SMC, the terms fellowship and study grant represent payments for independent educational opportunities such as the Science Summer Research program, independent study / research / internship, travel related to independent study / research / internship, or grant-funded training or educational activities that fall

under SMC's External Grants Participant Support Costs Policy.

- Fellowships / study grants are processed through Accounts Payable in the Business Office.
- Check Requests should be submitted with a signed award letter that acknowledges the taxability of the award.
- Annual Tax Reporting:
    - Fellowships / study grants are generally taxable income. Usually, fellowships / study grants are provided to cover "incidental expenses." Incidental expenses are expenses such as room, board, travel, research, equipment or supplies that are not required for either enrollment or attendance at an educational institution. The recipient should maintain all original receipts and documentation for his / her tax records.
    - If a fellowship / study grant is awarded to a student for the purpose of providing **research assistance,** the entire award will be taxable, regardless of the source of funds.
    - Fellowships / study grants are not reported for US Citizens and Resident Aliens by the College. The Internal Revenue Service (IRS) does not provide a Form for reporting these types of payments.
    - Fellowships / study grants may be reported annually on a Form 1042-S for Nonresident Aliens* depending on US tax law, the student's visa status and the student's country of residence. SMC may be required to withhold taxes from the payment to a Nonresident Alien* recipient. The information on these awards needs to be provided to the Director of Payroll and Tax Compliance for determination of reporting.

NOTE: The student may be required to submit a summary report but no service that directly benefits the College is required to receive the fellowship / study grant. The primary focus of a fellowship / study grant is to aid the student's research and educational enrichment. Faculty may support and provide guidance with the students' research. The College will not use the students' findings for its own benefit, or the benefit will be de minimis[1]. In circumstances where service is required to receive the fellowship or the benefit is more than de minimis, payments should be processed through payroll. Please see the Payroll section below for more information.

3. PAYROLL

As noted above, if a fellowship / study grant is awarded to a student for the purpose of providing **research assistance,** the entire award will be taxable, regardless of the source of funds. If **any** of the conditions below exist, the student will be considered an employee of the College and will need to be paid through payroll. Every condition does not need to be met for the student to be considered an employee:

I. The student is required to perform a service that directly benefits the College in order to receive the award.
II. The College exercises control by directing & supervising the activity performed.
III. The College determines the activity to be performed based on its needs.
IV. The College would pay another individual to perform these functions in the College's ordinary course of business.
V. The College is the primary beneficiary of this activity (benefit is more than de minimus[1]).

A student performing services as a Research Assistant **and being paid from a non-operating fund** of the

[1] Under IRS guidelines, the term *de minimis* can apply to any benefit, property, or service provided that has so little value that reporting for it would be unreasonable or administratively impracticable. De minimis benefits are excluded under IRC section 132(a)(4).

College, should be paid as an employee but will not be limited to the current federal work study maximum. This means a student who has a work study job and will earn up to the current maximum for that work study job can still receive compensation as a Research Assistant. Per Financial Aid, there is a maximum amount of compensation a student may receive before their financial aid package is impacted. Please contact Financial Aid for additional information.

- Employment hiring is processed through Human Resources. Payroll payments are processed through Payroll in the Business Office.
- New Hire Form (provided by the hiring supervisor) should be submitted to Human Resources as well as submission of the student's paperwork (i.e W-4, 1-9 and other required documentation). See New Hire Paperwork (Student Employees) in the Payroll section of the Staff Portal.
- General Ledger Account Codes to be used are determined by the hiring dept. but are generally 6244 or 6246 GL codes.
- Annual Tax Reporting: The College will provide the student with a Form W2 (or 1042-S for Nonresident Aliens*) annually. The College is responsible for properly withholding payroll taxes. Failure to withhold taxes when required may create unexpected tax liabilities for SMC students and cause the College to incur serious financial penalties.

4. PRIZES

A **prize** recognizes performance as part of a judged competition. For example, the best short story, essay, music or poster competition or winnings from a raffle or drawing. Prizes won in a contest aren't scholarships or fellowships if the recipient doesn't have to use the prize proceeds to pay tuition, books or required fees.

- Prizes are processed through Accounts Payable in the Business Office.
- Check Requests should be submitted with a completed Gift Giving & Prizes reporting form.
- Annual Tax Reporting:
    - Prizes are reported annually on a Form 1099-MISC for US Citizens and Resident Aliens who are not employees of the College.
    - Prizes are reported annually on a Form W2 for US Citizens and Resident Aliens who are current employees of the College.
    - Prizes are reported annually on a Form 1042-S and for Nonresident Aliens*, SMC may be required to withhold taxes from the payment to a Nonresident Alien* recipient.

5. AWARDS

A **student award** is given when no formal entry or submission has been made by the student. It is any payment that is intended to reward the student for an educational accomplishment or provide them with financial assistance to pursue an educational goal.

Awards to students that have restrictions (as to use) and specify they should be used to pay for tuition or room & board, are considered scholarships and should be processed through Financial Aid. Please see "Scholarships."

Awards to students that have restrictions (as to use) and specify they should be used for independent research, are considered fellowships / study grants and should be processed through Financial Aid. Please see "Fellowships / Study Grants."

Awards to students that have no restrictions (as to use) are considered prizes and therefore taxable. Please see "Prizes."

6. GIFT CARDS

Gift cards and gift certificates purchased with College funds and awarded to students are considered taxable income and are subject to withholding, regardless of amount. There is no minimum value threshold.

- Reimbursement for purchase of gift cards is processed through Accounts Payable in the Business Office.
- Employee Expense Reimbursement Form should be submitted with a completed Prize / Award Form if personal funds were used to purchase the gift card / certificate.
- Completed Prize / Award Form should be uploaded and attached to Pcard transaction if purchase of the gift card / certificate was used with an SMC issued Pcard.
- Annual Tax Reporting:
    - Value of Gift Cards / Certificates are reported annually on a Form 1099-MISC for US Citizens and Resident Aliens who are not employees of the College.
    - Value of Gift Cards / Certificates are reported annually on a Form W2 for US Citizens and Resident Aliens who are current employees of the College.
    - Value of Gift Cards / Certificates are reported annually on a Form 1042-S for Nonresident Aliens*. SMC may be required to withhold taxes from the payment to a Nonresident Alien* recipient.

7. REIMBURSEMENT

A **reimbursement** will be provided to a student when the student incurs an expense for the Colleges' benefit and the expense adheres to the College's Employee Expense Reimbursement Policy.

- Reimbursements are processed through Accounts Payable in the Business Office.
- Expense Reimbursement form should be submitted with original receipt(s).
- General Ledger Account Codes to be used:
- Annual Tax Reporting: No tax reporting is required and reimbursement is not taxable.

*The Business Office will review documentation submitted and will only communicate back to the department, if a student is subject to required tax withholding and therefore will not receive the full payment requested. For more information related to Nonresident Alien Students (for tax purposes) and / or determining any tax liability, please contact the Director of Payroll and Tax Compliance in the Business Office.

8. REVISION HISTORY

- This guidance is effective August 27, 2025.
- This guidance replaces the previous Guide to Student Payments dated January 26, 2022.