Taxation of Scholarships & Fellowships

Is the payment for a scholarship, fellowship, or a prize?
- Scholarship or fellowship: The pursuit of study or research
- Prize: Recognition of past achievement; no restriction on use

Is the scholarship or fellowship limited in use to tuition, books, and required fees, supplies & equipment?

Is the student a candidate for a degree at an eligible educational institution?

The payment is considered a 'non-qualified' scholarship or fellowship and may be taxable.
- The income is self-reported.
- No Form 1099 is received.
- No tax is withheld.
- Student receives correspondence from the University.

The 'non-qualified' scholarship or fellowship is taxable.
- Require details stating exact location of where studies or research to be performed.
- No tax withholding is required.
- At year-end, there is no formal tax reporting to the student or to the IRS.

Are the studies or research to be conducted entirely outside of the U.S.?

Non-Qualified Scholarship & Fellowship Payments to NRAs

Examples: ‘Non-qualified’ scholarships/fellowships may include payments for room/housing, board/meals, medical, stipends, thesis support, travel, cash, as well as non-required fees, books, supplies, and equipment.

Visas: All NRA student visa information is on file via the Glacier system. This documentation is required to determine if the student’s visa allows for payment.

For application of tax treaty benefits: Require IRS Form 8233 and Princeton University’s Substantial Presence Test (Form SPT). Princeton University students are required to complete this information via the Glacier system within 10 days after the student’s arrival. If no treaty benefits are available, and the student does not have a F1, J1, M1, or Q Visa, then 30% taxes will be withheld. Also, if the student does not, or will not, complete these forms, then no treaty benefits are available.

For F1, J1, M1, & Q Visas only: Tax withholding will not exceed 14%. Treaty benefits may also be available.

Sourcing Rules: Tax withholding only applies to U.S. source income. If the University is serving as the paying agent for a foreign grantor located outside of the U.S., then the University is not required to withhold tax.

IRS Form 1042-S: Princeton University will provide each year to NRA students who receive a taxable scholarship or fellowship.

Treasurer’s Office Forms Directory: http://web.princeton.edu/sites/TreasurersOffice/Gateway/forms.html
If questions, please contact the Tax Department at 8-1550. Updated on: 4-23-10