Non-qualified Scholarships, Fellowships, Grants, Participant Cost, Prize/Awards

In most cases, a Foreign National is subject to U.S. tax on its U.S. source income. Most types of U.S. source income received by a foreign person is subject to U.S. tax of 30%. A reduced rate, including exemption, may apply if there is a tax treaty between the foreign person's country of residence and the United States. Contact the Tax Department to determine if a vendor qualifies for a tax treaty exemption.

Payments of scholarships, fellowships, grants, participant cost and prize/awards paid to U.S. citizens and resident aliens are not generally reportable to the IRS and are not generally subject to withholding of tax. However, payments of taxable scholarships, fellowships, and grants to nonresident aliens are generally reportable to the IRS and are generally subject to withholding of U.S. Federal income tax.

Type of Income

PRIZE/AWARD
An award is an amount received primarily in recognition of a special achievement. A prize is the result of entering a contest. In both cases, the grantor does not specifically state how the money should be spent.

For a U.S. Citizen:

- Reference the “Voucher Workflow Matrix for Scholarships and Tax-Related Payments” posted on the Finance website http://www.uh.edu/finance/pages/References.htm to determine which payments require the Foreign National Information Addendum and tax approval.

For a Nonresident Alien for tax purposes:
- Tax withheld at 30% without regard to a tax treaty

SCHOLARSHIP/FELLOWSHIP/GRANT
A scholarship, fellowship, or grant is:

- An amount given to an individual to aid in the pursuit of study, training, or research
- Cannot be a payment for services
- Grantor specifically intends money be spent to defray costs of study, training, or research

For a U.S. Citizen:

- Reference the “Voucher Workflow Matrix for Scholarships and Tax-Related Payments” posted on the Finance website http://www.uh.edu/finance/pages/References.htm to determine which payments require the Foreign National Information Addendum and tax approval.

For a Nonresident Alien for tax purposes:
- If eligible for a tax treaty benefit, then 0% tax withheld (Note: U.S. Social Security number required)
- If not eligible for a tax treaty benefit, and present in the U.S. under an F-1, J-1, M, or Q visa status, payment is subject to 14% tax withheld
- all other visa status, payment is subject to 30% tax withheld
PARTICIPANT SUPPORT-STIPENDS

Participants are the recipients of the particular training envisioned by the grant or contract. PIs, researchers, various assistants, trainers or others needed to direct or assist and carry out the project or training are not participants.

For a U.S. Citizen:

- Reference the “Voucher Workflow Matrix for Scholarships and Tax-Related Payments” posted on the Finance website http://www.uh.edu/finance/pages/References.htm to determine which payments require the Foreign National Information Addendum and tax approval.

For a Nonresident Alien for tax purposes:

- If eligible for a tax treaty benefit, then 0% tax withheld (Note: U.S. Social Security number required)
- If not eligible for a tax treaty benefit, and present in the U.S. under an F-1, J-1, M, or Q visa status, payment is subject to 14% tax withheld
- all other visa status, payment is subject to 30% tax withheld
- Upload to the voucher the “Participant Cost for Sponsored Projects Payment Form” posted on the Division of Research website http://www.uh.edu/research/sponsored-projects/proc-pol-guide/participant-support/

Payment Instructions for the Types of Income Listed above:

- Reference the “Voucher Workflow Matrix for Scholarships and Tax-Related Payments” posted on the Finance website http://www.uh.edu/finance/pages/References.htm to determine which payments require the Foreign National Information Addendum and tax approval.

- To determine if the vendor is a foreign national, the department must have the vendor complete the “Foreign National Information Addendum” found in the Tax website http://www.uh.edu/finance/TaxInformation/PDF_files/Foreign%20National%20Information%20Addendum.pdf

- If vendor IS NOT a foreign national, the vendor must write their name on the top section of the addendum, and write “N/A” on the visa section, then sign and date the form. Upload the addendum to the voucher. No taxes to withhold, but voucher must be routed through tax workflow for review and approval if using one of the account codes listed below.

NOTE: Refer to the chart on page 3 to determine the appropriate approval workflow path
<table>
<thead>
<tr>
<th>Account</th>
<th>UHCL/UDH /UHV Account</th>
<th>Account Description</th>
<th>Payee Classification</th>
<th>Workflow Path</th>
</tr>
</thead>
<tbody>
<tr>
<td>54812</td>
<td>EMPLOYEE STIPENDS (Upload Foreign Nat. Info. Addendum w/Tax Approval)</td>
<td>Student Employee</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54812</td>
<td>EMPLOYEE STIPENDS (Upload Foreign National Information Addendum)</td>
<td>Non-Student Employee</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54817</td>
<td>PARTICIPANT-TRAVEL EXPENSES (Upload Foreign National Information Addendum, and process payment in the Concur Travel Management System, or AP for UHCL, UHD, UHVF)</td>
<td>Non-Employee</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54819</td>
<td>UH-NON-EMPLOYEE STIPENDS (Upload Foreign Nat. Info. Addendum w/Tax Approval)</td>
<td>Non-Employee Student</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54819</td>
<td>UH-NON-EMPLOYEE STIPENDS (Upload Foreign Nat. Info. Addendum)</td>
<td>Non-Employee and Non-Student Employee</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54821</td>
<td>UH-NSF PARTICIPANT STIPEND (Upload Foreign Nat. Info. Addendum w/Tax Approval)</td>
<td>Student</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54821</td>
<td>UH-NSF PARTICIPANT STIPEND (Upload Foreign Nat. Info. Addendum)</td>
<td>Non-Student</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54823</td>
<td>UH EMPLOYEE PARTICIPANT STIPEND (Upload Foreign Nat. Info. Addendum w/Tax Approval)</td>
<td>Student Employee</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54825</td>
<td>NON-EMPLOYEE PARTICIPANT STIPEND (Upload Foreign Nat. Info. Addendum w/Tax Approval)</td>
<td>Non-Employee Student</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54902</td>
<td>UH-NON-EMPLOYEE AWARDS (Upload Foreign National Information Addendum)</td>
<td>Non-Employee and Non-Student Employee</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54904</td>
<td>UH-EMPLOYEE AWARDS (NON-CASH &gt; $50) (Include Taxable Payments form - Exhibit B on Finance Forms page w/Tax approval)</td>
<td>Student Employee</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>54904</td>
<td>UH-EMPLOYEE AWARDS (NON-CASH &gt; $50) (Include Taxable Payments form - Exhibit B on Finance Forms page)</td>
<td>Non-Student Employee</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>54912</td>
<td>STUDENT AWARDS (Upload Foreign National Information Addendum w/Tax Approval)</td>
<td>Student Employee</td>
<td>Scholarships</td>
<td></td>
</tr>
<tr>
<td>56124</td>
<td>UH-DOMESTIC STUDENT TRAVEL (Upload Foreign National Information Addendum, and process payment in the Concur Travel Management System, or AP for UHCL, UHD, UHVF)</td>
<td>Student</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>56129</td>
<td>UH-PROSPECTIVE STUDENT TRAVEL (Upload Foreign National Information Addendum, and process payment in the Concur Travel Management System, or AP for UHCL, UHD, UHVF)</td>
<td>Prospective Student</td>
<td>Tax</td>
<td></td>
</tr>
</tbody>
</table>

If vendor IS a foreign national, the “Foreign National Information Addendum” must be completed in full and uploaded to the voucher. The department that’s processing the payment for the foreign national must contact the tax department to determine if the foreign national is eligible for a tax treaty exemption. If no tax treaty exemption is available, the withholding rate will be 14% for an “F-1”, “J-1”, “M”, or “Q” visa status (see special instructions in red below for J-1 short-term research scholars). All other visa status is subject to 30% tax withholding.

After the Tax Department determines if vendor is exempted under a tax treaty, the Tax Department will forward to the department the tax treaty exemption IRS Form W-9 or W-8BEN. Either form must be uploaded to the voucher along with the completed Foreign National Information Addendum and a copy of the email from the Tax Department with tax treaty results. The voucher should be routed through tax workflow for approval.

Student - Refers to University of Houston students only
w/Tax Approval - Some vouchers sent to Scholarships also need Tax approval. Email the Tax Department the voucher number. Tax Dept puts their approval in Comments. Then route to SFA.

Taxable Payments or Reimbursements Form - Exhibit B from SAM 03.D.06 www.uh.edu/Finance/Forms/Taxable Payments or Reimbursements to Employees

Foreign National Information Addendum -
• If vendor **IS NOT** eligible to receive a tax treaty exemption, the tax withholding should be applied to the payment. Withhold tax at **14%** for an “F-1”, “J-1”, “M”, or “Q” visa status. All other visa status is subject to **30%**. Add a second account line to the voucher using account code **20611** and cost center **2080-H0258-F0855-BPXXXX-NA** or Speed type 24299 (see below). Route voucher through tax workflow for approval.

*Please note special instructions below for J-1 Short Term Research Scholars. Departments must upload to the voucher supporting documentation for payments processed through A/P for a J-1 visa status.*

<table>
<thead>
<tr>
<th>Budget Check:</th>
<th>Valid</th>
<th>Source:</th>
<th>NSM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54825</td>
<td>H0107</td>
<td>B0555</td>
</tr>
<tr>
<td></td>
<td>20611</td>
<td>2080</td>
<td>H0258</td>
</tr>
</tbody>
</table>

• To be in compliance with FLSA employment law, UH must follow certain guidelines when processing payments to a J-1 research scholar. The primary consideration for whether someone should be paid as an employee vs on a stipend or scholarship is **who benefits from the work**. If the duties that the student will perform are primarily learning-oriented, such as a training, or educational opportunity, then they can be paid via stipend or scholarship. If the duties are mainly for the **benefit of the department**, such as routine tasks or being an “extra pair of hands” to the PI, then the individual needs to be treated as an **employee and paid through payroll**.

• We need to determine the relationship of the individual to the university, since that relationship depends on the nature of the work being performed. Below is a flowchart and some examples that may help the departments clarify matters and determine if payment should be processed through Payroll or Accounts Payable. See flow chart on page 5.
Payment to Work or Study?

- **School has direction over student's activities**
  - Yes: Payment to Work (Route through Payroll)
  - No
    - **The student's pursuit of study or research is primarily for the benefit of the school**
      - Yes: Payment to Work (Route through Payroll)
      - No
        - **Grant amount is payment for past, present, or future services**
          - Yes: A National Research Service Award Training Program
          - No
            - **There are purse strings attached to the grant amount**
              - Yes: Payment to Work (Route through Payroll)
              - No
                - **Student must render substantial services for the grant amount**
                  - Yes: Payment to Work (Route through Payroll)
                  - No
                    - Payment to Study (Route through Accounts Payable)
• Basically comes down to, “Who benefits most from the relationship”? If this is primarily a learning opportunity where the intern gains mastery over a skill or process and then moves on to other tasks, then it’s okay to pay a stipend (upload payment justification to the voucher). If this is mainly to provide the department/PI with additional help on a project or with routine daily tasks, then they must be treated as employees and paid through payroll (via ePAR) and comply with FLSA requirements.

• Departments must complete the “Payment(s) to Non-Employee and Non-Contractor Review and Approval Form” posted on the Human Resources website http://www.uh.edu/human-resources/forms/. Upload the form to the voucher. See form example on page 7.
If it’s determined on this form that payment should be paid via Accounts Payable, upload to the voucher the form along with the Foreign National Information Addendum, and apply the corresponding tax withholding rate. Route voucher through tax workflow for approval.

**Tax Department contact information:**

Keith Gernold  
Tax Director  
kgernold@central.uh.edu  
713-743-8710

Elizabeth Giron  
Foreign National Tax Specialist II  
egiron@central.uh.edu  
713-743-8987

Alma Villarreal  
Tax Assistant II  
avillare@central.uh.edu  
713-743-8608