FAQs

Q: U.H. is planning to pay for the traveling expenses of a student to present his paper at a conference relating to his field of studies in class. The trip is NOT an annual recurring situation for the department. Explain the tax treatment of the travel expenses.

A: The travel expenses would be treated as "non-qualified" scholarship for the student based on the fact that the conference is not a normal, recurring expense of the University, and the student is benefiting from the trip. If the student is a U.S. citizen, permanent resident, or resident alien, the University is not required to report the value of the trip, but the expenses are considered "income" to the student.

Q: A UH program is paying for the overnight lodging costs (i.e., travel costs) for middle school students to visit a UH campus. The event is not a recurring event, and is not a class requirement or part of a course curriculum. Explain the tax treatment of the travel costs for the students.

A: The travel costs are considered non-qualified scholarship expense and constitute a form of financial assistance to the middle school student. However, UH is not required to report on Form 1099-Misc for U.S. citizen, permanent resident, and resident alien.

Q: UH reimbursed postdoctoral fellow for airfare. Is the airfare taxable? Also, for direct payments to hotel for the same postdoctoral fellow, would such lodging payment be taxable?

A: If the purpose of the trip is business related under the IRS Accountable Plan, the airfare is NOT taxable. Refer to IRS Reg. 1.62-2 (2). Similarly, the hotel lodging payments is not taxable. However, if the purpose of the trip is personal enrichment, the lodging is income. If the traveler is a non-resident alien, UH may be required to withhold income taxes, as described in the Tax Treatment Matrix.

Q: We are funded by NSF to host a conference in Hawaii for doctoral-level graduates selected from a world-wide applicant pool. The meeting is only open to the invited participants to present and discuss their PhD thesis research with their peers and is usually held off campus. UH is funded to pay for the airfares, hotel accommodation, and most of the meals.

Specific Questions:
- Are any of these expenses taxable for US resident participants?
- Are any of these expenses taxable for non-US resident participants?
- Does the employment status of these participants have any bearing on the taxability?

A: The IRS Accountable Plan rules apply only to travel and living expense reimbursements made to employees and independent contractors. Since these postdocs are not an UH employee and is being characterized as a scholarship/fellowship grant recipient, these expenses are taxable. The same rules apply to non-US resident participants.

Q. Can I use PCard to pay vendors for someone's travel expenses?
A: P Card purchase made to third party vendors (e.g. travel agency, hotel, and car rental) is permitted on behalf of UH or non-UH employees, who are doing business with the University. Doing business with the University is defined as performing services on behalf of the University or his/her employer for a business purpose. PCard usage on behalf of non-resident aliens (NRAs) should not be used unless doing business with the University. This is because there is no mechanism in the bank PCard system to capture the data that is used to determine citizenship status, substantial presence in the US, and the purpose of the trip for income taxability, reporting, and withholding obligation. One should use a purchase order to procure airline tickets through a local vendor.

Q. For research surveys, the PI wants to provide gift cards to participants but the study requires the anonymity, is the WH-1 still required?
A: Yes, only if payment more than $75. UH Form WH-1 or IRS Form W-9 is required to determine if the participant is a US Citizen, Resident Alien, Non-Resident Alien (NRA). For NRA, gift card is discouraged because it is difficult to withhold 30% taxation from a gift card. Use a cash or check payment.

UH Payment Processing

Scholarship/Fellowship Payment to Non-UH Employees

For payment made to an individual

- Process with Disbursement Voucher (DV) in KFS;
- For payment made to third party (e.g. travel agency),
- Generate purchase order to vendors
- Gross up vendor’s amount due to include any federal tax due.
- Submit vendor invoice to Disbursing for Payment Request (PREQ) with required documentations
  - A list of participants to Disbursing containing:
    - Full Name, US TIN (if any), current Mailing address, pro rata amount per person

- Gross Up Method
  - Use alternative funding source to cover the tax due
  - Department absorbs the cost of the tax withholding
  - Vendor receives only amount due

Example (14%): $1,000.00 x 1.16279 = $1,162.79
Example (30%): $1,000.00 x 1.42857 = $1,428.57
Three Primary Questions about Non-Service Financial Assistance

- Is the payment for services (work)?
- Is University of Hawaii required to report the payment?
- Is University of Hawaii required to withhold income tax?

Type of Non-Service Financial Assistance Payments

- Qualified Scholarships
- Non-Qualified Scholarships and fellowships
- Royalty
- Prizes / Awards

Definition

Non-Service Financial Assistance (NSFA) NSFA is financial assistance provided to or for individuals who are not required to perform services in exchange for the financial service they receive, and who are not regular employees.

Qualified Scholarships
Received by a degree candidate who attends an educational institution for tuition, fees, books, supplies, and equipment required for courses. These items must be required of all students in your course of instruction to be tax free.

Non-Qualified Scholarships/fellowships
Received for incidental expenses or by a degree or non-degree candidate (e.g. postdoctoral fellow)
- Room, board, living expenses
- Travel including airfare, lodging, transportation, M&IE, and conference registration fee
- Any excess amounts in qualified scholarships
- Tuition exemption (waiver), or any other financial aid paid to or on behalf of NONRESIDENT ALIENS which require the recipient to perform services past, present, or future, in exchange for the financial aid are taxable as wages, are reportable to IRS on Form W-2.

Royalty
Royalty is payment for right to use someone’s intellectual property. It could also be payment for license to use intellectual property for so many users. (i.e. software)

Prizes / Awards
Defined as payment based on past accomplishment or activity or is received as the result of entering a contest.

General Program Expenses
Defined in AP 8.561 as expenses incurred by a scholarship or fellowship program that do not benefit a specific individual (such as beverages provided at an informational community meeting or a bus/transportation service that is open to any participant) are not considered part of an individual scholarship/fellowship. If the expense is to support a specific recipient (such as payments for an airline ticket or lodging), the expense is likely a scholarship/fellowship (provided all other scholarship/fellowship requirements are met) unless the activity resulting in the expense is part of an official UH course curriculum, the activity is specifically described in the class catalog, or UH Chartered Student Organization.

IRS Tax Effect on Income at a University:

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Income Name</th>
<th>IRS Tax Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation (dependent personal service)</td>
<td>Wages, Salary, (stipend for svc)</td>
<td>Taxable or tax treaty exempt</td>
</tr>
<tr>
<td>Compensation (dependent personal service)</td>
<td>Travel Reimbursements (e.g. employee’s travel reimbursements)</td>
<td>Accountable Plan.</td>
</tr>
<tr>
<td>Compensation (independent)</td>
<td>Ind Personal Svc/Consulting fees</td>
<td>Taxable/Treaty exempt</td>
</tr>
<tr>
<td>Compensation (independent)</td>
<td>Honoraria/guest speaker fee</td>
<td>Taxable/Treaty exempt</td>
</tr>
<tr>
<td>Compensation (independent)</td>
<td>Travel Reimbursements</td>
<td>Accountable Plan</td>
</tr>
<tr>
<td>Scholarships/Fellowships</td>
<td>Tuition/Fees/Books/supplies etc.</td>
<td>Excluded under IRC section 117</td>
</tr>
<tr>
<td>Scholarships/Fellowships</td>
<td>Room/Board</td>
<td>Taxable/Treaty Exempt</td>
</tr>
<tr>
<td>Scholarships/Fellowships</td>
<td>Travel Reimbursements</td>
<td>Taxable/Treaty Exempt</td>
</tr>
<tr>
<td>Scholarships/Fellowships</td>
<td>Stipends (no service by payee)</td>
<td>Taxable/Treaty Exempt</td>
</tr>
<tr>
<td>Royalties</td>
<td>Royalties</td>
<td>Taxable/Lower Treaty Rate</td>
</tr>
<tr>
<td>Prizes or awards</td>
<td>Prizes or awards</td>
<td>Taxable</td>
</tr>
</tbody>
</table>

University of Hawaii Reporting Requirement Pursuant to AP 8.561

<table>
<thead>
<tr>
<th></th>
<th>Qualified Scholarship and Fellowship</th>
<th>Non Qualified Scholarship and Fellowship</th>
<th>General Program Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Citizen</td>
<td>No Reporting Object code: 6500, 6510, 6514</td>
<td>No Reporting Object code: 6500 or 6540</td>
<td>No Reporting Object code: various</td>
</tr>
<tr>
<td>Permanent Resident &amp; Resident Alien</td>
<td>No Reporting Object code: 6500, 6510, 6514</td>
<td>No Reporting Object code: 6500 or 6540</td>
<td>No Reporting Object code: various</td>
</tr>
<tr>
<td>Nonresident Alien</td>
<td>No Reporting Object code: 6500, 6510, 6514</td>
<td>No Reporting if the travel expense is employment related. Object Code: 6540</td>
<td>Reportable on Form 1042-S and possible federal tax withholding Object code: 6503 or 6543</td>
</tr>
</tbody>
</table>

(Note: All payments, except for wages and merit scholarships, are includable as financial aid resources and must be disclosed to the student payee’s home campus Financial Aid Office as required by Title IV regulations.)

Scholarship/Fellowship Object Codes

<table>
<thead>
<tr>
<th>OBJECT CODE</th>
<th>OBJECT CODE NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>6500</td>
<td>G-HN-AID_SCHOLARSHIP/FELLOWSHIP</td>
</tr>
<tr>
<td>6503</td>
<td>G-HN-AID_SCHOLARSHIP/FELLOWSHIP (REPORTABLE)</td>
</tr>
<tr>
<td>6510</td>
<td>G-HN-AID_TUITION</td>
</tr>
<tr>
<td>6514</td>
<td>G-HN-AID_TUITION (LOAN REPAYMENT)</td>
</tr>
<tr>
<td>6540</td>
<td>G-HN-AID_TRAVEL</td>
</tr>
<tr>
<td>6543</td>
<td>G-HN-AID_TRAVEL (REPORTABLE)</td>
</tr>
</tbody>
</table>

Accountable Plan per IRS Reg. 1.62-2 (2)

- Used to exclude reimbursement for business related expense(s) from gross income for an individual.
- To be qualified, the individual must be employed by University of Hawaii or elsewhere (e.g. other universities), or
- Hired as independent contractor.
- The primary purpose of the activity must benefit UH or the employer, not the individual.
- Reimbursement to postdoctoral fellows, who are not employed by UH, usually doesn’t qualify under the Accountable Plan.