

# Guidelines for Postdoctoral Fellowship Payments

This is intended to provide guidelines on when to process postdoctoral fellowship payments via Kuali Financial System (KFS) using the Disbursement Voucher (DV) method.

## 1. Type of Postdoctoral Appointments

Generally there are two distinctive appointments for payment processing purposes: **postdoctoral employee** and **postdoctoral fellow**.

- **Postdoctoral Employee**
  - An **employee** of the university pursuing continued education and specialized research training and experience.
  - Receives a **salary** (wages).
  - Supported by funding that does not prohibit the postdoc from having an employee designation. Typically performs services on a grant or contract in exchange for compensation during postdoctoral training.
  - Common funding sources are research grants awarded to the faculty advisor or postdoctoral employee
- **Postdoctoral Fellow**
  - **Trainee**, not an employee. Pursuing specialized research training and experience primarily for the fellow's own benefit.
  - Receives a **stipend** (payment not for services rendered).
  - Supported by a true fellowship, as defined by the IRS, or a training grant that prohibits the postdoc from being in an employee-employer relationship with the university. Does not perform a service in return for compensation.
  - Common funding examples are the NIH Kirschstein National Research Service Award (**NRSA**) Individual Postdoctoral Fellowships (F32s) and NRSA Institutional Research Training Grants (T32s) and certain other individual postdoctoral fellowships.

Once the department determines the appointment is a postdoctoral fellow, payments can be processed in KFS. However, before payments are made, if the postdoctoral fellow is new to the University, a new vendor code will need to be created via KFS using a Vendor Maintenance (PVEN) document. If a new vendor code is needed, attach a completed UH WH-1 Form along with the fellow appointment letter to the PVEN for review by the Disbursing Office. The letter will serve as supporting document for approval of payment by faculty adviser.

## ***2. Making Payments to Postdoctoral Fellows (non-UH Employees) in Quali Financial System using DV Method***

A fellowship payment is any amount paid or allowed to, or for the benefit of, an individual to aid such individual in the pursuit of study or research. These payments may take the form of: (i) payment(s) to the recipient, such as stipend payments; (ii) reimbursement or payment of expenses, such as travel expenses, to or on behalf of an individual; or (iii) a credit against an existing term bill or a reduction in the amount owed by the recipient to an educational organization in connection with the pursuit of study or research.

Payments made to the postdoctoral fellows described in the section above should be submitted using the DV Payment Reason Code S and object codes 6503 or 6543. This pertains to all postdocs who are US citizens, legal permanent residents (Green Card), resident aliens, and non-resident aliens for tax purposes.

## ***3. Tax Treatment of Payments Made to Postdoctoral Fellows***

Fellowship payments are taxable, unless they are excluded from taxable income under Section 117(a) of the Internal Revenue Code.

### **Fellowship amounts are nontaxable where:**

- The recipient is an individual, who is a candidate for a degree at an educational organization such as UH (i.e., undergraduates or graduate students, but not post docs); and
- The fellowship amount is used for "qualified tuition and related expenses." Qualified tuition and related expenses include tuition and fees required for the enrollment or attendance of a student at an educational institution, such as fees, books, supplies and equipment required for courses of instruction at such an educational organization.

### **Fellowship amounts are taxable where:**

- Amounts are used for room, board, travel, clerical help, equipment, incidental living expenses and other expenses not required for enrollment in or attendance at UH.
- Amounts are given to non-degree candidates, such as postdoctoral fellows.

### **Tax Withholding**

UH withholds taxes on fellowship payments depending on the status of the fellows.

- If the fellow is a nonresident alien for U. S. tax purposes, there will be a withholding from fellowship income, unless he/she qualifies for and is granted a tax treaty benefit, which reduces or eliminates tax withholding. In the absence of a tax treaty benefit, the withholding rate depends on the type of visa held. For F, J, M, and Q visas, the withholding rate is 14%; for all other visas, the withholding rate is 30%. An IRS Form

1042-S will be generated and sent to the fellows, showing fellowship amounts for each calendar year.

- If the fellow is a U. S. citizen or resident alien for U. S. tax purposes, the University will not withhold any income taxes from your non-employee fellowship payments nor issue an IRS Form 1099 MISC or other formal tax documents. Therefore, the fellow should consult with their personal tax adviser to determine whether or not he/she should be making estimated tax payments with respect to the fellowship income.

#### ***4. Resources for Postdoctoral Fellows Income Tax Return***

In preparing their personal income tax return, postdoctoral fellows should consult with their own tax advisor, because the University is not authorized to provide individual tax advice. He or she may, however, find it helpful to read the IRS publication relevant to their personal situation:

- If the fellows are a U. S. citizen or resident alien for tax purposes, who received fellowship amounts for studying, teaching or researching in the U. S., then see IRS Publication 970, Tax Benefits for Education, which is available at <http://www.irs.gov/publications/p970/index.html>.
- If the fellows are a U. S. citizen or resident alien for tax purposes, who received fellowship amounts for studying, teaching or researching outside the U. S., then see Publication 54, Tax Guide for U. S. Citizens and Resident Aliens Abroad, which is available at <http://www.irs.gov/pub/irs-pdf/p54.pdf>.
- If the fellows are a nonresident alien for U. S. tax purposes, who received fellowship amounts for studying, teaching or researching in the U. S., then see Publication 519, U. S. Tax Guide for Aliens, which is available at <http://www.irs.gov/pub/irs-pdf/p519.pdf>.
- Federal income tax forms and publications can be downloaded from the IRS web site at <http://www.irs.gov>.

## ***5. Letter Template to Postdoctoral Fellows about Tax Treatment of Fellowship Payments***

Name of postdoctoral fellow

Address

Dear \_\_\_\_\_:

According to our records, you are the recipient of a fellowship awarded in connection with your training at the University of Hawaii, \_\_\_\_\_. Recipients of such awards include postdoctoral fellows, clinical fellows, and similar recipients. The purpose of this letter is to inform you about the general treatment of your award for tax purposes.

In some cases, the fellowship funds are paid directly to you, while in other cases the funds are provided by a third party on your behalf. For example, an award intended to pay the recipient's expenses may be paid directly to the recipient, or it may be paid by the third party directly to the University and credited to the recipient's University account. In either event, however, the payment is treated for tax purposes as made to the fellowship recipient and will be subject to the tax rules discussed below.

Under Internal Revenue Service (IRS) regulations, a fellowship is not taxable only if the funds are used for required tuition, fees, books, supplies, equipment, or other mandatory fees for classes or enrollment. Any portion of a fellowship used to pay for other expense (e.g., room and board, travel, health insurance premiums, and other living expenses) must be included in your taxable income for the year. Because postdoctoral fellows are not enrolled and do not pay tuition, you are not covered by this exception.

IRS regulations do not require the University to withhold income taxes on the taxable portion of fellowship payments to citizens or permanent residents. Therefore, depending upon the taxable amount of your award, you may need to make estimated income tax payments prior to the filing of your tax return. For more information on the rules pertaining to estimated tax payments, see IRS Publication 505 (Tax Withholding and Estimated Taxes), which can be found at the same IRS website address shown above.

Please note that this letter is only intended to introduce you to the tax rules applicable to recipients of fellowships. The University does not provide tax advice; you should contact your personal tax advisor with any questions or concerns.