Taxation of Graduate Student Fellowships and Graduate Assistantships[1]

Graduate students are critically important to the research and education mission of the University. We work hard to attract the best and the brightest candidates to contribute their skills and intellect to our University. The work done by graduate students is valued and essential.

The funds paid to support graduate students are treated differently than wages under the tax law because graduate students are not employees in the traditional sense of the term. The tax law has carved out special categories for the types of payments made to graduate students, related to the fact that they are receiving a degree for their efforts in addition to those payments. This has nothing to do with the value of the work done by graduate students or its importance to the University. It relates only to the fact that the grad student is receiving a degree for their efforts in addition to their payment.

<u>Fellowships and graduate assistantships:</u> (referred to colloquially as "stipends" in some departments) are amounts paid as a living allowance to support graduate students as they earn their degree. Stipends are taxable income to the recipient but are not reported as taxable income by the University on Form W-2. This is because stipends paid to support graduate students are not deemed to be employment payments.

Below are some attributes used to determine whether graduate student work is primarily educational and not primarily for the benefit of the University:

- Focus of the work is training and development to benefit the graduate student
- The direction and scope of the work is determined by the graduate student in conjunction with his or her faculty mentor
- The activities of other graduate students in the same program are substantially similar
- Graduate students doing this work do not serve as replacements or substitutes for employees
- Activities do not benefit some primary University function

Teaching and research undertaken as part of an academic program requirement is not deemed to be undertaken for the primary benefit of the University because it is required in order for you to earn your degree.

Those graduate students receiving fellowships and graduate assistantships are responsible for reporting these payments and remitting any tax due. Therefore, if necessary, students should file a declaration of estimated tax and pay quarterly installments of tax on these payments. Failure to file and pay quarterly

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[1] Please note: for students that are non-resident aliens for tax purposes, withholding depends on whether you are eligible for treaty benefits on your taxable fellowship/assistantship and your completion and submission of the necessary paperwork to the Payroll office (including updating your Glacier record for your new job code and completing and submitting Form W-8BEN). Non-resident aliens are generally subject to withholding on all taxable payments (if no treaty benefit is available), so many aspects of this memorandum (in particular, the requirement to make estimated tax payments on taxable fellowship/assistantship payments) do not apply. If you have any questions or need additional information, please contact the Glacier Administrator at glacier@hr.rochester.edu.

installments of tax may subject the student to interest on any under-payment of tax when their income tax return is filed for the year.

The University understands that this implication of the tax law could place additional burdens on students, and resources will be provided to make this transition as painless as possible. Again, this does not mean that the work you do is not incredibly valuable to the University. This simply reflects a tax law distinction relating to the fact that graduate students are receiving a degree in addition to a payment in exchange for their work.

Additional (add-on) graduate assistantships and teaching assistantships: In many cases, graduate students are paid supplemental amounts to do additional teaching or research beyond what is required for them to earn their degree (and beyond what graduate students in the same program are doing). These are payments for work performed for the primary benefit of the University. These payments will be reported on a W-2 with income taxes withheld.

Frequently Asked Questions

1. Why is the University changing how stipends have been treated?

The University reexamined the way we were reporting graduate student stipends because of reporting issues under the Affordable Care Act. Because stipends were being reported on a W-2, we had a disconnect between the way we were paying stipends and the reported number of employment hours worked under the ACA. This caused us to re-examine how we were reporting stipend pay and what our peers were doing, and the change in reporting resulted. Columbia University and Washington University in St. Louis are a few of our peer schools who report no stipend payments on W-2s.

There are a few schools who break out a teaching or research component to a stipend payment and report that component on a W-2 (but a base stipend is still not reportable on a W-2). We rejected this alternative used in a minority of schools for a variety of reasons that are beyond the scope of this memorandum. This option would not have avoided your need to file estimated taxes on a substantial portion of the stipend.

2. Why were graduate students not alerted earlier about this change?

Information on the change was available to graduate students on the Provost's website in November 2016. A detailed document describing the tax changes for 2017 was posted in December and schools forwarded this link to departments and students shortly after its posting.

The timing of the Town Halls reflected two factors. First schools and departments across the entire University were working from October-December to convert current graduate student positions to new job codes. It took some time to make sure that this conversion was successful. The second – and more important reason – for the timing of the Town Halls is that the schools felt that this information should be provided when most relevant to students. The schools felt that discussions at the beginning of the spring semester would be most helpful to students since it would be after the break/holiday and not interfere with exams, grading, and other activities.

The timing in late January was also seen as most beneficial because students were just starting to receive their tax forms for the 2016 tax year (which is unaffected by the change), so they were thinking about tax issues in general at this time. This also gave students 2 ½ months to plan for the first estimated tax payment due on April 18, 2017, and to think about applying any refund from their 2016 tax return (which they are starting to prepare at this time) to their 2017 estimated tax payments.

We apologize if this communication plan left some graduate students concerned about the transition, and we are actively working to provide additional materials based on student feedback.

3. How will graduate students know how to calculate their estimated quarterly tax payments?

The University is committed to providing students with the necessary resources to understand their responsibilities for reporting payments from fellowships and graduate assistantships. We have materials available to you that will help as you transition to payment of estimated taxes. The University will also provide a tax accountant to assist graduate students prior to April 15 when the first estimated tax filing is due to help you navigate your personal tax situation. Online resources will be available the week of February 6. We will let you know when office hours for the tax accountant will be available.

4. What are the advantages or disadvantages to the University for this changes.

This change has no advantage or disadvantage to the University except to the extent that it is more fully compliant with the tax law.

There is no financial impact to the University due to this change at all other than the cost we are incurring to provide a tax accounting to grad students to help them with their first estimated tax filing.