



OFFICE OF COMPLIANCE SERVICES  
UVM.EDU/POLICIES

## POLICY

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### Title: Payments to Students

#### Policy Statement

This policy identifies transactions to students that are considered scholarships with respect to Federal Student Aid (FSA) Programs authorized by Title IV of the Higher Education Act of 1965, as amended, (HEA) and the Internal Revenue Code.

#### Reason for the Policy

The University of Vermont is adopting this policy in order to ensure compliance with the FSA Program and Internal Revenue Service regulations regarding University payments to students which may include payment for services, reimbursements, scholarships, prizes and awards.

#### Applicability of the Policy

This policy applies to all University of Vermont (UVM) faculty and staff who are responsible for the facilitation of any payment or transaction to a student. This policy applies to transactions to or for all students, including non-degree students and matriculated degree students, and includes transactions made during the summer to or for individuals who were enrolled in the preceding spring term or who will be enrolled in the upcoming fall term.

#### Definitions

- Award: See Prize
- Compensation: Any form of payment to a student in recognition of a student's employment service for the University.
- Cost of Attendance: The total of the costs associated with a student's attendance at the University of Vermont, and includes such items as tuition, fees, room, meals, books & supplies, transportation and miscellaneous personal expenses.
- Estimated Financial Assistance: Any educational benefits paid because of enrollment in postsecondary education.
- On behalf of the University: See University Business

**Participation Incentive:** An item of low dollar value given to an individual to encourage participation in a University activity. This is unrelated to participation in faculty-led sponsored research.

**Prize:** Any form of award or payment to a student who has entered and won a judged competition **which was demonstrably open to both students and non-students**. In order for a payment to a student to be considered a prize, there must have been a real possibility for non-students to have entered the competition and won the prize. **If only UVM students were eligible to enter and win the competition, the transaction is a scholarship.** An example of a prize would be a drawing for a gift certificate where everyone who attends an open lecture is entered into the drawing. If restrictions are placed on the prize or award, it is considered a scholarship; it should be awarded and processed through Student Financial Services.

**Qualified versus non-qualified:** Qualified Scholarship/Fellowship: this category includes payments to the student (those in a degree program) or credits to a student's account used only for "qualified tuition and related expenses," which are limited to tuition and required fees, books, supplies, or equipment. Qualified fellowships are not taxable income to the student as long as qualified payments do not exceed stated tuition and fee amounts.

Non-Qualified Scholarship/Fellowship: A non-qualified scholarship or fellowship is a scholarship/fellowship payment used for expenses that are not qualified tuition or related expenses (e.g. amounts used to pay optional fees, room, board, travel and personal expenses).

**Required for Degree Completion:** Any educational activity that is required for the student in order to obtain their degree (complete their program), including activities required for courses that are being taken for credit, as well as required credit or non-credit experiential or other activities. This also includes educational activities related to graduating as an Honors College Scholar, such as thesis related research.

**Scholarship:** Any form of award, payment, reimbursement or other transaction to a student which is made because of the student's post-secondary enrollment or for the purpose of aiding their study, training, or research, including but not limited to payments toward tuition, fees, books, living expenses, travel expenses, etc. Specific expenses being paid directly or reimbursed for non-required educational activities that are not billed through the student account and are not part of the standard Cost of Attendance are not considered scholarship and are not processed or reported to Student Financial Services.

**Living Allowance (commonly referred to as Stipend):** A payment to a student in connection with educationally related activities. The individual circumstances of a living allowance must be considered in determining whether it is a form of compensation or a form of scholarship.

**University Business:** Defined as "while on assignment by or at the direction of the University for furthering its business interest."

## Procedures

While attending UVM, students may be the recipient of payments, reimbursements, awards, or other transactions from various University departments or entities. How the transaction is processed, its impact (if any) on the student's financial aid eligibility, and any applicable tax withholding and/or income reporting

requirements for the transaction are determined based on whether the transaction is: compensation, prize, payment/reimbursement for University business, payment/reimbursement for specific expenses associated to an educational experience not required for the student's program, or scholarship as defined in this policy.

The individual initiating any transaction to a student and the Dean, Director or Department Head of the academic or administrative department requesting such a transaction are responsible for ensuring that the transaction complies with this policy. In the case of transactions funded by gifts to the University, the transaction and any process for selecting the recipients must comply with the requirements of the donor in accordance with the Restricted Gift Fund Administration Operating Procedure, the terms of any applicable gift agreements, as well as this policy.

The intent of a transaction, not the name or form of payment, determines whether a transaction is considered compensation, prize or scholarship and any financial aid and/or tax implications of the transaction. According to FSA Program regulations, payments that students receive because of postsecondary enrollment, to specifically cover postsecondary education expenses (expenses that are, or can be included in the Cost of Attendance), or that can be used to cover education expenses, are considered estimated financial assistance (scholarship) and may have financial aid implications. As a result, unless a transaction to a student is compensation, a prize (open to both students and non-students), or is made as a result of the student being engaged in University business, the transaction is considered scholarship and unless specifically exempted must be reported to Student Financial Services.

If, however, actual expenses for an educational experience not required by the student's program are being reimbursed, that reimbursement is not considered estimated financial assistance, nor are the expenses to be included in the cost of attendance for the student. Such transactions will occur between the party awarding the funds and the student recipient, and will not be reportable to Student Financial Services. Such transactions are processed through the Disbursement Center via a Check Request Form and the Student University Business Certification Form.

In general, a student's total need-based financial assistance (from federal and non-federal sources) may not exceed the student's financial need. Receipt of scholarship assistance may reduce a student's eligibility for federal and/or institutional loans, grants, scholarships and/or work study with the specific impact determined based on each student's individual financial circumstances and financial aid eligibility. If it is found that there has been an overpayment/over-award made to a student, that student is liable for and must resolve the overpayment/over-award by returning excess funds. This situation could result in a collection account for the student with UVM and/or a debt owed to the Department of Education. Failure by UVM to comply with the regulations regarding overpayments/over-awards may result in institutional fines and loss of federal funding.

Use this menu of links to jump to a specific section of this Policy (use Ctrl+click):

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- [Reimbursement or Payment of Actual Expenses Related to Required Educational Experiences](#)
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## **Compensation for Services, Student Employment & Travel as an Employee**

Compensation for services; payment, reimbursement or recognition for a student based on their employee status; and student travel associated with their employment is not considered scholarship.

### Compensation for Services

If the primary purpose of the transaction is to compensate the student for services provided to the University, and/or the primary beneficiary of the student's activities is the University, then the transaction is compensation and is not scholarship. Evidence that a payment is compensation could include:

- The University has direction and supervision over the student's activities;
- The student's study/research is primarily for the benefit of the University (e.g., the student is working on a faculty member's research project);
- The payment is for past, present or future services (except in the case of a National Health Service Corps or Armed Forces service scholarship);
- The student must provide a substantial quid-pro-quo in exchange for the payment;
- Someone else would have been hired to do the work if the student were not doing it;
- Payment is contingent upon the student completing a body of work or activity for the University and payment can be withdrawn or suspended if the student discontinues their work or engagement in the activity.

Compensation is processed according to current [student employment](#) processes and policies, or for allowable temporary classes of students (Temp Hourly: Apprentice Intern; Non-Employee Intern; Non-Employee Student Leader) [temporary employee](#) guidelines should be followed.

### Student Employment

When an individual is both a student and an employee of the University, before any payment or reimbursement is issued, the department must determine whether the individual is being paid/reimbursed/recognized primarily as a student or as an employee.

If the primary purpose of the payment is to compensate or recognize the student for their employment service to the University then the student is being paid as an employee.

Transactions to student employees made on the basis of employee status are not considered scholarship. If a student employee is also receiving funding to cover direct educational expenses (e.g., tuition, fees, books, room and board), that funding is considered scholarship.

### Travel as a Student Employee

If the student is being reimbursed for travel, and the primary beneficiary of the travel is the University, then the student traveled as an employee on behalf of the University. Evidence that travel was as an employee could include:

- The department routinely or regularly has staff travel under similar circumstances (e.g., a department regularly sends staff to a certain conference and has sent a student-employee to this conference);
- The travel supports a core function of the employing department or directly relates to a core function of the individual's job (traveling as an employee);

- Other staff in the employing department will benefit from the individual's travel (e.g., from knowledge or resources the individual is expected to share with staff upon their return).

#### **Payments for Travel or Other Expenses Primarily Benefitting the University (not related to Employment)**

There are times when a student might travel or make purchases on behalf of the University, but not related to employment at the University.

Travel for purposes of University Business will be handled as reimbursement and processed by the Disbursement Center. Evidence that travel was for purposes of University Business (but not employee travel) could be:

- The travel is to officially represent the University by presenting at a conference or competing in an academic or athletic competition;
- The student is formally and specifically assisting a faculty or staff member representing the University in their official capacity;
- The travel is on behalf of SGA, SGA recognized club, or IRA business in accordance with their respective charters.

Reimbursements for expenses that primarily benefitted the University will be processed by the Disbursement Center. Examples of expenses that are considered University Business include:

- Purchase of supplies that become the property of the University;
- Purchase was on behalf of the SGA, an SGA recognized club, or the IRA, in accordance with their respective charters, and was not payment of educational expenses such as tuition, fees, room and board.

#### **Reimbursement or Payment of Actual Expenses Related to Required Educational Experiences**

Actual expenses being paid for directly or reimbursed to a student, that are associated with an educational activity that is required for degree completion, are considered Estimated Financial Assistance and are thus reportable to Student Financial Services. Examples of educational activities that may have associated expenses are travel, conferences, seminars, field trips, research and internships. On a case by case basis, Student Financial Services will review the expenses to determine if a Cost of Attendance increase is warranted. Items being reimbursed that are already included in the Cost of Attendance, such as basic living and transportation expenses, will not result in a Cost of Attendance increase, and thus may impact a student's eligibility for other need-based aid.

- When the expenses are being paid for directly by an entity at the University, Student Financial Services will include the reported amount in the student's financial aid award, and will review the expenses to determine if a Cost of Attendance adjustment is appropriate.
- Reimbursements to students will be processed, as requested, by Student Financial Services following the University's standard credit balance refund process. Students may receive their reimbursement regardless of any other balance due on their UVM account, but may also choose to use the reimbursement to cover an unpaid account balance.
- All submissions to Student Financial Services must be accompanied by documentation of the expenses, as well as documentation showing that the educational activity is required for degree completion.
- The payment or reimbursement will be considered Estimated Financial Assistance for the term in which the activity occurred. If the required educational activity takes place during a period of non-enrollment (i.e. summer), the payment or reimbursed amount will be included as Estimated Financial Assistance for the last enrolled term, and Student Financial Services will review the Cost of Attendance for the last enrolled term to determine if an adjustment is appropriate.

### **Reimbursement or Payment of Actual Expenses Related to Non-Required Educational Experiences**

Actual expenses being paid directly or reimbursed to a student for an educational activity that is not required for degree completion are not considered Estimated Financial Assistance, and are not reportable to Student Financial Services. Also, such expenses cannot be included in the Cost of Attendance. Reimbursements of actual expenses falling into this category need to be processed through the Disbursement Center. There may be tax implications for the student depending on the total amount of reimbursements processed for or paid on behalf of a student during a tax year, requiring an IRS 1099 Misc to be generated. Examples of educational activities are travel, conferences, seminars, field trips, research and internships.

### **Up-Front/Set Amount Awards for Research, Internships or Other Educational Activities**

If a student is awarded a set amount of funding for an educational activity prior to incurring expenses and/or regardless of the actual expenses incurred for that activity, then that funding is considered Estimated Financial Assistance and must be incorporated into the financial aid award. This is also the case if the award is a reimbursement, but there are no receipts or other documentation showing the expenses have actual been incurred by the student. Since such awards could be used by the student to pay for their standard educational expenses, they are not eligible for consideration for an increase to the Cost of Attendance, thus they may cause a reduction to the student's eligibility for other types of financial aid. These awards are counted as Estimated Financial Assistance in the term received except that if the award is given for a period of non-enrollment (i.e. summer), it will be counted as Estimated Financial Assistance for the next enrolled term for the student. Since a Cost of Attendance increase is not allowed for these types of awards, the award may reduce the student's eligibility for other financial aid for the term to which it is applied. This is applicable whether or not the educational activity is required for degree completion.

### **Participation Incentives and Giveaways**

From time to time, University offices or organizations may offer non-research incentives and giveaways to encourage and reward community participation in various activities, ensure sufficient participation in a study or event, incite action on the part of community members, and/or promote an event or organization. Students may be the recipients of such incentives and giveaways. Whether such items are considered scholarship, and whether they are reportable, depends upon the circumstances of the award, the audience of potential recipients, and the dollar value of the item.

- If the audience of potential recipients is limited to UVM students – that is, only a UVM student could have received the item – the item is considered scholarship. In recognition that participation incentives are infrequent, generally are not a resource students can use to pay for their cost of attendance, and are generally of such a small dollar amount as to make accounting for them unreasonable and administratively impracticable, giveaways and participation incentives that are considered scholarship are reportable to Student Financial Services for the academic term in which they occur only if:
  - The value of the item exceeds \$100 OR;
  - The item (of any value) is cash, a pre-paid credit/debit card not specific to any merchant (VISA gift card), a CATCard deposit, or a textbook, computer, or similar electronic device such as a tablet.
- If the audience of potential recipients is not limited to UVM students – that is any member of the UVM community or any member of the public-at-large could have received the item – the item is not a scholarship and is subject to reporting to Human Resource Services (for employees) or the Disbursement Center (for non-employees) in accordance with the [University's Operating Procedure on Awards, Prizes and Winnings](#).

## **Payment Processing**

All reporting of direct payment of expenses or requests for reimbursement to students related to educational activities must be done according to the procedures outlined in the Payments to Students Guide. This will include submission of receipts for all expenses and, when applicable, documentation showing that the educational activity is required.

- **Reporting or Processing Through Student Financial Services**
  - Scholarship payments or reimbursements processed through Student Financial Services will result in a credit for the specified amount on the student's UVM student account. If the incorporation of the scholarship into the student's financial aid award resulted in a reduction to other aid, the credit may be offset by that aid reduction. If the scholarship is a reimbursement for expenses already incurred by the student for a required educational activity (not billed through the student account), then the student may receive up to the full amount of the reimbursement, regardless of any balance due on their student account. For any other scholarship payments, any net credit will be applied first toward any outstanding balance due on the student's account for the current or any prior terms. If the scholarship payment results in a credit balance on the student's account, a refund will be issued following the University's standard credit balance refund process.
- **Processing Through the Disbursement Center**
  - Expense reimbursements processed through the Disbursement Center, and not related to employment at the University, will be handled according to Disbursement Center procedures for non-employee reimbursement. Such reimbursements may have tax implications depending on the total amount of reimbursement for a student within each tax year and require an IRS 1099 Misc. to be generated.
  - Expense reimbursements for student employees, for University business but not related to employment compensation, will be handled according to Disbursement Center procedures for employee reimbursement. An example is a Graduate Teaching Assistant who needs to be reimbursement for purchasing supplies for the department.
- **Processing Through Payroll Services**
  - Payments or reimbursements for employment compensation are processed through Payroll Services and will be subject to the appropriate state and federal tax withholding, etc.

## **Tax Liability**

The tax information set forth herein is current at the time of the policy adoption but may be subject to change and cannot be relied on for tax reporting purposes.

### **Scholarships and Fellowships**

Scholarships may be tax-free if the student is a candidate for a degree and meets criteria established by the Internal Revenue Code.

In general, a financial payment may result in a tax liability, even if characterized as "scholarship", if (1) the student is not a degree candidate; (2) the scholarship is to pay non-qualified expenses (including room and board); (3) the scholarship – alone or in combination with other scholarships – exceeds qualified expenses; (4) the scholarship is compensatory payment for teaching, research or services; or, (5) the scholarship was won in a contest and does not have to be used for educational purposes.

For U.S. citizens and resident aliens, qualified scholarships and fellowships are not subject to tax withholding but must be captured by the University for 1098-T Tuition Statement reporting. For a student who is a Nonresident Alien for US income tax purposes, the nonqualified portion of the scholarship is reportable by the University via Form 1042-S.

Scholarships or fellowships received to offset non-qualified educational expenses are taxable to the student. However, for students who are U.S. citizens or resident aliens, there is no tax withholding or Form 1099 reporting required by the University. For scholarship or fellowship payments given to nonresident alien students, there is tax withholding and reporting on Form 1042-S to the IRS. The student should always maintain the documentation necessary to support information reported to the Internal Revenue Service (IRS).

In 1987, the IRS ruled that an institution is not required to either withhold income tax or file any information returns with respect to taxable scholarship/fellowship grants paid to U.S. students (including foreign resident aliens). Therefore, even though the individual may receive taxable scholarship/fellowship income, the institution making the payment is not required to withhold any tax or file any reports with the IRS with respect to the taxable grant.

This "no withholding/no reporting" rule, however, is subject to two important caveats:

1. The scholarship/fellowship recipient must be either a U.S. citizen or a U.S. resident alien for tax purposes.
2. The payment that the institution makes to the individual must be a "scholarship" or "fellowship" and not compensation for services rendered or work.

The most common examples of nonqualified scholarship/fellowship are payments used to pay for room, board, travel, and medical expenses, etc.

#### Prizes and Awards

Prizes and awards are always taxable to the recipient. If certain dollar thresholds are satisfied, the University will report the prize or award to the IRS and to the student.

For U.S. and resident alien students, all prizes and awards must be reported by the University to the IRS on Form 1099-MISC if total prizes to the student in the tax year are \$600 or greater. It is the responsibility of all prize and award recipients, regardless of the amount of the prize, to report the taxable prize received to the IRS on their personal income tax returns.

For nonresident alien (NRA) students, the University is required to withhold 30% Federal tax and 8.1% state tax on the full amount of the prize or award. The amount will be reported to the IRS and to the student on Form 1042-S.

Any student who receives a scholarship or prize should refer to IRS Publications [970](#) and [525](#), respectively, and their tax professional, to determine any tax liability.

#### Living Allowance

A living allowance is an allowance paid to students, and includes payments other than those defined as non-taxable fellowships paid through the Disbursement Center or Payroll Services (international students). In no instance is a living allowance a payment involving services related to work. Although these payments are usually taxable income to the student, the University is not required to report them to the student or the IRS, nor is the University required to withhold tax on them. The following payment types are generally not considered living allowances, and that term should not be used to refer to them:

- a. Expense Reimbursement
- b. Bonus
- c. Award or prize to student



## Contacts

Questions concerning the daily operational interpretation of this policy should be directed to the following (in accordance with the policy elaboration and procedures):	
Title(s)/Department(s):	Contact Information:
Student Financial Services	(802) 656-5700

## Forms/Flowcharts/Diagrams

- [Check Request](#)
- [Prize Certification Form](#)
- [Request for Payment of a Scholarship to a Student](#)
- [University Business Certification Form](#)

## Related Documents/Policies

- [Awards, Prizes, and Winnings Procedure](#)
- [Restricted Gift Fund Administration Operating Procedure](#)
- [Travel Policy](#)
- [Undergraduate Student Employment and Federal Work-Study University Operating Procedures](#)
- [University Payments to Students Resources](#)

## Regulatory References/Citations

- [IRS Publications 970 Tax Benefits for Education](#)
- [IRS Publications 525 Taxable and Nontaxable Income](#)
- Higher Education Act of 1965, as amended (HEA), in particular sections [673.5\(c\) Estimated financial assistance](#), [685.102\(b\) Estimated financial assistance](#), 479A(a) Professional judgement, and 471 Cost of attendance

## Training/Education

Training will be provided on an as-needed basis as determined by the Approval Authority or the Responsible Official.

## About this Policy

<b>Responsible Official:</b>	Vice President for Finance and Administration	<b>Approval Authority:</b>	President
<b>Policy Number:</b>	V. 4.16.2	<b>Effective Date:</b>	February 2, 2015
<b>Revision History:</b>	<ul style="list-style-type: none"><li>• Approved by the President February 4, 2015</li><li>• January 7, 2021</li></ul>		

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