**Taxation of Scholarships & Fellowships**

A foreign person is subject to 30% U.S. tax unless there is a treaty exemption. Form W-8BEN with ITIN required for exemption.

- **Prize**
  - Scholarship or fellowship: The pursuit of study or research
  - Prize: Recognition of past achievement; no restriction on use

Is the payment for a scholarship, fellowship, or a prize?

- **Scholarship or Fellowship**

Is the scholarship or fellowship limited in use to tuition, books, and required fees, supplies & equipment?

- **Yes**
  - Is the student a candidate for a degree at an eligible educational institution?
    - **Yes**
      - The payment is considered a 'qualified' scholarship or fellowship:
        - No tax withholding is required.
        - At year-end, amount is reported to both the IRS and recipient on Form 1098-T, Box 5.
    - **No**
      - The payment is considered a 'non-qualified' scholarship or fellowship and may be taxable.

- **No**
  - Is the recipient a U.S. citizen/U.S. person, or a non-resident alien (NRA)?
    - **U.S.**
      - The 'non-qualified' scholarship or fellowship is taxable.
        - The income is self-reported.
        - No tax is withheld.
        - Require details stating exact location of where studies or research to be performed.
        - No tax withholding is required.
        - At year-end, there is no formal tax reporting to the student or to the IRS.
    - **NRA**
      - Are the studies or research to be conducted entirely outside of the U.S.?
        - **Yes**
          - Require details stating exact location of where studies or research to be performed.
        - **No**
          - The 'non-qualified' scholarship or fellowship may be taxable. See discussion below

**Non-Qualified Scholarship & Fellowship Payments to NRAs**

**Examples:** 'Non-qualified' scholarships/fellowships may include payments for room/housing, board/meals, medical, stipends, thesis support, travel, cash, as well as non-required fees, books, supplies, and equipment.

**Visas:** This documentation is required to determine if the student’s visa allows for payment.

**For application of tax treaty benefits:** Require IRS Form 8233 (for employment payments) or W-8BEN with a valid ITIN. Baylor University students are required to provide Foreign National information via the FNIS system or paper form found on the Payroll Office website. If no treaty benefits are available, and the student does not have a F1, J1, M1, or Q Visa, then 30% taxes will be withheld. Also, if the student does not, or will not, complete these forms, then no treaty benefits are available.

**For F1, J1, M1, & Q Visas only:** Tax withholding will not exceed 14%. Treaty benefits may also be available.

**Sourcing Rules:** Tax withholding only applies to U.S. source income. If the University is serving as the paying agent for a foreign grantor located outside of the U.S., then the University is not required to withhold tax.

**IRS Form 1042-S:** Baylor University will provide each year to NRA students who receive a taxable scholarship or fellowship.