

PAYMENTS TO STUDENTS POLICY

Purpose

The purpose of this policy is to ensure the University's compliance with federal financial aid and Internal Revenue Service (IRS) regulations as it relates to payments to students. This policy applies to all students of the University.

Background and Scope

The University makes various types of payments to students during the normal course of business. The reason for the payment determines its treatment from a tax perspective and determines the methods available for processing the payment.

In general, payments to students can be broken down into two broad categories: payments that benefit the University (wages and university expenses) and payments that benefit the student (scholarships).

There is no hard and fast rule to determine the primary beneficiary for instances where both parties could be benefitting; however, the "reasonable person" standard should be used – meaning that an objective, prudent, and independent person would reach the same conclusion if given the same set of circumstances. In scenarios where it is not abundantly clear, the department may be asked to provide further justification.

In this policy, we will provide definitions and examples for each type of payment as well as outline the methods available for processing the payment. Student payments are of a complex nature and the below examples are not meant to represent an all-inclusive list. Specific determinations may need to be made on a case by case basis and can be done by contacting the Controller's office.

1. **Wages** – payments made as compensation for services.
 - a. Compensation for performance of assigned work
 - b. Scope of work is assigned
 - c. Workers' compensation coverage
 - d. Applicable employee fringe benefits as appropriate based on eligibility
 - e. Employer-employee relationship
 - f. Paid based on hours worked
2. **University Expenses** – payments to pay for and/or reimburse a student for expenses incurred for the benefit of the University.
 - a. Travel-related expenses that promote programs/research at the University. Usually accompanied by or directed by a faculty member of the University and/or is presenting work completed in their capacity as an employee with the University.
 - b. Food or supply expenses for student-related activities allowed for by student funds.
3. **Scholarships** – including fellowships, academic awards, and payments to pay for and/or reimburse a student's travel, research, or other institutionally authorized personal expenses which primarily benefit the student.
 - a. Financial assistance or support paid to student; no work assigned
 - b. No scope of work



- c. No workers' compensation coverage
- d. No fringe benefits
- e. Student-mentor relationship
- f. Paid at a regular interval determined by each department. No obligation to perform any assigned tasks or specific projects
- g. Common examples:
 - i. Amounts granted for needs-based personal expenditures and/or amounts granted that are left to the student's discretion for spending
 1. Food, monthly bills or living expenses, technology, etc.
 - ii. Amounts granted to promote or assist in the student's current work/research/education at the University
 1. Journal publications
 2. Software used for a student's research project
 3. Access fees for a student's dissertation
 4. Travel grant to attend a conference which relates to thesis research
 - iii. Amounts granted to further goals of future work/research/education for the student
 1. Travel expenses to visit other institutions to obtain an internship

Note when the term "scholarship" is used in this document, it includes stipends, awards, support packages, and any other type of payment issued to a student not in relation to services rendered.

Further note, we have not included prizes/awards as a payment classification above as payment of a prize/award (i.e., something of value conveyed as a result of chance – lottery, raffle, drawing, etc.) should be rare given that we are an agency of the State of Oklahoma and given our relationship with students. See Prizes and Awards policy for treatment of these items; however, note that in most instances consultation with the Controller's office should be sought to ensure proper treatment and allowability.

Processing Payments to and On Behalf of Students

The following section outlines the available methods of payment for each of the above listed types of payments to students:

1. **Wages** – only method of payment is via Payroll

Payments to students for services rendered should be processed via Payroll, which will include appointing the individual as a student employee through the University HR system.

2. **University Expenses** – various methods

Direct payment of Expenses

As with any other University expense, normal procurement channels should be followed depending upon the type of expense. Payment methods include:

- Direct billing and payment via voucher,
- Purchase order issuance and payment via receipt,
- Use of Travel Card – faculty's travel card and/or student's if they qualify for their own,
- Use of Pcard,

- OU Marketplace

Given this list of available options, direct payment is the preferred method for University expenses. Reimbursements for expenses are strongly discouraged.

Reimbursement of Expenses Incurred by Student:

While we never want student's to be out of pocket personally for University expenses, there are scenarios where this could happen. In these rare instances, payment can be made to reimburse the student for University expenses by entering a voucher into PeopleSoft using the appropriate GL codes that correspond to the purchases made. Note that to make payment to a student via PeopleSoft, they will first need to be set up in our Supplier system. The Individual Supplier Form located on the Financial Services website can be used for setup.

3. **Scholarships** – various methods

Applied to Student's Bursar Account:

Departmental Scholarships: For scholarships awarded to students from a departmental fund, an "Authorization for Departmental Scholarships/Fellowships" form should be completed and submitted to the Scholarship Office. This scholarship will be applied directly to the student's Bursar account toward any existing balance. Scholarship amounts greater than the existing balance will be sent to the student as a refund, either electronically by eRefund or by paper check.

OU Foundation Scholarships: For scholarships awarded to students from an OU Foundation fund, a "Scholarship Request Form" found on the OU Foundation website should be completed and submitted. This scholarship will be applied directly to the student's Bursar account toward any existing balance. Scholarship amounts greater than the existing balance will be sent to the student as a refund, either electronically by eRefund or by paper check. *Note: University of Oklahoma Foundation's role concerning awards, stipends, and study abroad payments will be to reimburse the department funds and they will no longer be issuing checks to students.*

Grant Fund Scholarships: For scholarships awarded to students paid through grant (SPNSR) funds, a "3rd Party Scholarship Form" must be completed and submitted through the Research Financial Services (ReFS). Once submitted, ReFS will determine whether the scholarship can be applied to the student's Bursar account for any charge or if it must be applied to specific charges. ReFS will route the completed and approved form to the appropriate office to complete the scholarship transaction.

Check issued directly to Student:

For scholarships not applied directly to a student's Bursar account, payment can be made by entering a voucher into Peoplesoft using a scholarship GL code. This will appropriately route the voucher to Bursar for their review and approval. Both the completed "Scholarship vs. Wages Designation Form" and "Scholarship Payment Form" should be attached to the voucher as support. Once approved, a check will be made to the student. With this method it is left to the department's discretion whether they would like to issue the award before or after the student has incurred the expenses.

Note payments to students who are not US persons for tax purposes are taxed differently than those who are US persons for tax purposes. If you have questions regarding this taxation or the implication to the student, please contact fstax@ou.edu.

Conclusion

To help ensure compliance with applicable regulatory bodies, Financial Services has defined the various types of payments to students and outlined the available methods for making those payments. Situations that warrant payment outside of the options listed above, will be reviewed on a case by case basis by the Controller's office.

Addendum

The following sections have been included to document the relevant tax rules associated with this policy, Financial Services' interpretation of these rules, and the planned application. They have been included primarily for internal/administrative use only.

Relevant Tax Rules

Gross Income: Gross Income is defined as "all income from whatever source derived," (IRC §61(a)) meaning that all income is subject to federal income tax rules unless an exception applies.

Payments for Services: Any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship shall not be considered a qualified scholarship payment (IRC §117(c)(1)).

Qualified Scholarship Payments: Gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at an educational organization (IRC §117(a)) to the extent the individual establishes that such amount was used for qualified tuition and related expenses (IRC §117(b)(1)). Qualified tuition and related expenses include tuition and fees required for enrollment or attendance of a student at an educational organization, fees, books, supplies, and equipment required for courses of instruction at such an educational institution (IRC §117(b)(2)).

Nonqualified Scholarship Payments: Topic No. 421 Scholarships, Fellowship Grants, and Other Grants, lists the following as items not included as a "qualified scholarship" and are therefore taxable to the individual receiving: amounts granted for incidental expenses such as room and board, travel, equipment not required for the courses, and any other expense that is not required for enrollment in or attendance at an educational organization.

Related Tax Forms & Their Uses

Form W-2, Wage and Tax Statement, is required to report payments for services performed by an employee.

Form 1099-Misc, Miscellaneous Income, is required to report payments in excess of \$600 for services performed by a non-employee.

Form 1098-T, Student Loan Interest Statement and Tuition Statement, is an informational report required to be issued by the educational organization for each enrolled student for whom a reportable transaction was made during the applicable calendar year.

Form 1098-T Box 1 – includes total amount of payments received for qualified tuition and related expenses from all sources during the calendar year, less any reimbursements or refunds made during the year that relate to the

payments received for qualified tuition and related expenses. The amount reported is not reduced by scholarships and grants reported in Box 5.

Form 1098-T Box 5 – includes the total amount of scholarships and grants – both qualified and nonqualified – that were administered and processed during the calendar year for the payment of the student’s costs of attendance, including payments received from third parties.

Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, is used to report taxes withheld on certain types of income of foreign persons.

Form 1042-S, Foreign Person’s U.S. Source Income Subject to Withholding, is used to report certain amounts from U.S. sources paid to foreign persons.

Interpretation of Tax Rules

1. Wages – Included in gross income, subject to federal income tax, reported on the form W-2.

In general, payments to students for services rendered should be in relation to their position at the University (i.e. as an employee – for example GTA, GRA, etc.). It should be rare to issue a 1099 to a student.

2. University Expenses – Not included in gross income, not subject to federal income tax, not reportable

3. Scholarships

- a. Qualified Scholarship Payments – Not included in gross income, not subject to federal income tax, reportable in Box 5 of the 1098-T to help offset qualified expenses.
- b. Nonqualified Scholarship Payments – Included in gross income, subject to federal income tax, reportable in Box 5 of the 1098-T.