

Tax and Financial Aid Considerations for REU Participants

Congratulations on your acceptance to the Research Experience for Undergraduates (REU) program at Texas State University! The offices of Payroll and Tax Compliance, Financial Aid and Scholarships, and General Accounting are excited to welcome you to our beautiful campus and to Central Texas. We look forward to providing the support needed for a productive summer of research for you and your mentors.

As a part of your REU experience, you will receive stipend payments and reimbursements from Texas State. In some cases, Texas State may also pay some of your travel expenses directly. It is important that you understand the possible tax implications associated with those payments and your obligation to report the amounts to the financial aid office at your home university.

TAX INFORMATION

Texas State University is not required to report fellowship payments (such as your stipend) and travel reimbursements to the IRS, as long as services are not required as a condition of receiving payments.

Specifically, Treasury Regulation 1.6041-3(n) excludes from reporting:

Payments to individuals as scholarships or fellowship grants within the meaning of section 117(b)(1), whether or not "qualified scholarships" as described in section 117(b). This exception does not apply to any amount of a scholarship or fellowship grant that represents payment for services within the meaning of section 117(c). Instead, these amounts are required to be reported as wages on Form W-2.

Furthermore, the instructions to IRS Form 1099-MISC read:

Do not use Form 1099-MISC to report scholarship or fellowship grants. Scholarship or fellowship grants that are taxable to the recipient because they are paid for teaching, research, or other services as a condition for receiving the grant are considered wages and must be reported on Form W-2. Other scholarship for fellowship payments (to a degree OR NONDEGREE candidate) are not required to be reported by you to the IRS on any form. [EMPHASIS ADDED]. See Notice 87-31 1987-1 C.B. 475 and Regulation section 1.6041-3(n) for more information.

Although the payments you receive will not be reported to the IRS by Texas State, the payments may be taxable under certain circumstances. It is important that you maintain your own tax records in order to prepare your annual federal income tax return.

For specific tax questions, please consult with your tax professional as Texas State University is not authorized to provide individual tax advice. You may also find it helpful to read IRS Publication 970, *Tax Benefits for Education*, which is available at: <http://www.irs.gov/publications/p970/index.html>. All other federal income tax forms and publications may be downloaded from the IRS web site at <http://www.irs.gov>.

FINANCIAL AID INFORMATION

Please be sure to inform the Financial Aid Office at your home university about the funds you are receiving through the REU program at Texas State. Under federal law, you are required to notify your Financial Aid Office of scholarship or fellowship payments that you receive to defray your educational costs. The payments received from Texas State may be taken into consideration when determining your financial aid eligibility at your home institution.

We trust you will find this information helpful. Should you have additional specific questions, please contact our offices and we will be happy to assist.

Madeline Dávila, CPP, MBA
Director, Payroll and Tax Compliance
601 University Drive
JCK Suite 582
(512) 245-2543
payroll@txstate.edu

Christopher D. Murr, Ph.D.
Director, Financial Aid and Scholarships
601 University Drive
JCK Suite 240
(512) 245-2315
<http://txstate.custhelp.com>

Lisa Braun, CPA, MACy
Director, General Accounting
601 University Drive
JCK Suite 520
(512) 245-2541
gao@txstate.edu