

"How To Optimize Your Processing of Foreign Nationals and Current Issues Update"

July 25, 2013

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Presenters

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 - NC Office of the State Controller
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Disclaimer: The information within this presentation does not constitute tax/legal advice and each participant should seek his/her own counsel in addressing specific situations.

Training Agenda

- Introduction to Foreign National Taxation Terminology
- Understanding Immigration Status
- Procedures for Paying or Compensating Aliens
- Treaty Benefits, Eligibility and Limitations
- Common Errors and Friendly Reminders
- Questions and Answers
- Appendix examples

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Training Objectives	•
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You should:

- Become familiar with the most relevant nonimmigrant visa classifications used by your institution
- Become familiar with "non-resident alien" tax rules, and learn what a "non-resident alien" means for tax purposes
- Learn the difference between <u>temporary</u> and <u>permanent</u> status, and the <u>proper visa types</u> for teachers, researchers, students, trainees, camp counselors, temporary employees
- Become familiar with the various types of <u>taxable</u> <u>compensations</u> that can legally be paid to a foreign national.
- Begin to understand what the <u>required documentation</u> is to process payments for foreign nationals.

Why are we here discussion this subject?

- Per Internal Revenue Code 1441 to 1443 Withholding On Payments of U.S. Source Income to Foreign Persons
- Per IRS Publication 515: "This publication is for withholding agents who pay income to foreign persons, including nonresident aliens, foreign corporations, foreign partnerships, foreign trusts, foreign estates, foreign governments, and international organizations." Specifically, it describes the:
 - persons responsible for withholding (withholding agents)

 - the types of income subject to withholding, and
 the information return and tax return filing obligations of withholding agents

TRUE or FALSE?

Failure to follow taxation regulations applicable to Foreign Nationals only affects the employee?



Foreign National Contact

- You may be wondering WHY do I need to worry with this?
 - Foreign nationals have a special set of work restrictions and tax guidelines they must follow.
 - Ensure appropriate documents are received
 - Provide necessary communication to foreign nationals
 - COMPLIANCE ISSUES:
 - Each entity is at risk of very large penalties and fines
 - · Potentially jeopardizes the foreign national's visa status.

WHO meets with your foreign nationals ANNUALLY? Does anyone?



Helpful Definitions

- Withholding Agent (your institution)
 - A U.S. or foreign person that has control, receipt, custody, disposal, or payment of any item of income of a foreign person that is subject to withholding
 - Liable for taxes owed
- Foreign National (any non-U.S. Citizen)
 - An individual that owes allegiance to or who is under the protection of a country other than the United States
 - Non-resident Alien
 - Resident Alien



Helpful Definitions

Immigration	vs.	Taxation
minigration	vs.	TUXULIOII

United States Citizens

United States Citizens

Lawful Permanent Resident > Lawful Permanent

Resident

Foreign National

Non-resident Alien for Tax Purposes

OR

Resident Alien For Tax Purposes

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Helpful Definitions - Immigration

- Temporary (nonimmigrant) status

 - Limited by:

 Time duration of authorized period of stay

 Scope allowable activities

 - Location employer as well as physical presence
 Must have nonimmigrant intent

 - Generally denoted by alphabetical notation
- Permanent (immigrant) status

 Allows holder to remain in U.S. indefinitely
- Permanent Resident can live and work wherever, and for whomever s/he chooses no limitations based on time, scope or location
- "Green card" is another way to indicate someone has permanent resident status
- Treated just like a US citizen for taxation purposes



What Tax Status Determines

United States

- Worldwide Income
- Citizen
- Residents
- Green Card
 SPT
 Entities org. under U.S. laws
- W-4/W-2 Standard Wage Withholding

- Standard Wage Withholding
 W-9/1099
 28% backup w/h
 Some corporate exemptions
 \$600 threshold for most reporting
- No treaty benefits (some exceptions)
- No reporting for goods purchases
- Filing deadlines
 Payees: 1/31
 IRS: 2/28-4/30

Non-United States

- U.S. Source Income
 - Not U.S. Citizen or resident Not org. under U.S. laws

 - W-4/W-2
 - Special withholding rules
 - W-8s/8233/1042-S

 - 30% withholding (14% on Scholarships)
 - No corporate exemptions
 - No minimum dollar threshold for payments
 No reporting for goods purchased

 - Can claim treaty benefits or ECI to avoid or lessen U.S. taxation/withholding if qualify
 - Filing deadlines
 - Payees: 3/15 (W-2: 1/31)
 - IRS: 3/15-4/14

Employees vs. Students

Back to Immigration Requirements

- A foreign national employee is one who comes to the U.S. on a temporary visa for the sole purpose of working in the U.S.
- A foreign national student is one who comes to the U.S. on a
- temporary visa for the primary purpose of studying in the U.S.

 Any employment students engage in is "incidental to their status"
- Any employment students engage in its incidental to their status and is restricted. In some instances they are **NOT** allowed to be employed at all (e.g. their DS-2019 or I-20 indicates they are foreign-funded and does not show any support from your institution)

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Two Types of Policies

- · High-level Policies:
 - Define institution's commitment to complying with IRS, immigration, federal, state, local and other regulations
- Internal Operational Policies:
 - Day-to-day implementation policies; based on what can and cannot be done within framework of high-level policies

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Having Written Policies and Procedures Will...

- Make your job easier
- Reduce frustration for everyone
- Help departments and payees understand what to do and why
- · Will aid in more efficient processing of payments
- Increase institutional compliance
- Show the IRS you take compliance seriously

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Basics of NRA Processing

- Initial processing of Foreign National
 - Determine Immigration Status
 - U.S. Citizen vs. Non-Resident Alien
 - Perform Substantial Presence Test (Tax Status)
 - F, J, & M Student Exceptions
 - Determine Source of Income
- Annual Batch processing
 - Renewal of paper work
 - Ensure the foreign national remains in status.
 - Changes in Tax Residency Status

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Majority of Visa Types you will see:

Teachers, Researchers and Temporary Employees
H-1B, TN, O-1, as well as all other visa categories
Foreign Nationals with a valid Employment Authorization Card (EAD) may receive wages
Employment is permitted only if the card has not expired
Sponsored by the departments and processed through IE

Students and Researchers
F-1, J-1, and M-1
F-1 Optional Practical Training (OPT): must have EAD
Sponsored by the Office of International Scholars (OIS)
Trainees and Camp Counselors

Trainees and Camp Counselors F-1 or J-1

F-1 or J-1

Athlete, Artist, and Entertainers
P-1, P-2, P-3

Cultural Exchange Program
Q-1, Q-2

Please refer to the Visa and Payment Chart for more detailed information.



Procedures - Keep it Simple

6 Steps for Paying or Compensating Aliens:

- Step 1 Gather Data
- Step 2 Type of Payment
- Step 3 "Source" of the Income
- Step 4 Subject to Income Tax Withholding?
- Step 5 Subject to FICA?
- Step 6 Reportable and How?



Step 1 - Gather Data (Tax Assessment)

- **<u>Data Gathering Form</u>** should be completed by each foreign national and presented with copies of the specified immigration documentation.
 - Used to determine:
 - Eligibility for payments dependent on visa type
 - Determine tax status is Non-resident Alien or Resident Alien (Substantial Presence Test)



What Tax Residency Determines

- · Review of data gathered -
 - Determines:
 - Income subject to tax RA (Worldwide) or NRA (US Only)
 - · Whether certain treaty exemption apply
 - Withholding certificate for treaty benefits and other tax forms
 - 8233 or W-8Ben
 - Must have a U.S TIN
 - W-4

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The Substantial Presence Test (SPT)

- A 183-day formula based on:
 - Current status and date of entry
 - Also expected departure date
 - 3-calendar years history of U.S. visits
 - Longer history if any visits in most recent 3 years are/were in F, J, M, or Q Status
 - Windstar will do this process for you.

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HELP!!! Who NEEDS a Tax Assessment?

- If your institution shares information you can learn about someone's immigration status from:
 - I-9's
 - Social Security Cards (Is there a notation on the card?)
 - Human Resource databases
- For taxation purposes you are allowed to ask for immigration information and documentation



Tips for identifying a Foreign National

- Publication 515 <u>Presumption Rules</u>, "if you cannot reliably associate a payment with valid documentation you must apply certain presumption rules or you may be liable for tax, interest, and penalties."
- It is better to tax and have those taxes refunded by the IRS to the individual, than to not tax at all and face penalties and fines.

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Tips for identifying a Foreign National (cont.)

- A newly-arrived payee already has an SSN but has represent that they have no prior presence in the U.S.
- Country of Visa issuance or foreign residence is different than county of tax residency claimed by payee.
- Situations where a business entity is payee, but the true beneficial owner of the income is an individual.
- A payee asking you to make payment to a charity or foundation instead of them.
- U.S. Port of entry stamps or visas in an individual's passport that are not mentioned in the individual provides to you.



Step 2 – The Type of Payment

- The type of payment made to an alien falls into four primary categories:
 - Dependent personal services: Wages, Service related scholarship/fellowship/assistantship payments, travel reimbursements
 - Independent personal services: Consulting fees, guest speaker
 - <u>Scholarship/Fellowships</u>: Qualified/Nonqualified
 - Other Income Types: Prizes and awards, royalties, etc.

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Types of Taxable Income	
Wages	
Assistantships	
Scholarships	
Fellowships	
Travel Reimbursements	
Housing Allowances	
NOT Allowed to Pay Stipends or H	lonorariums
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Step 3 - The Source of the Income

- Source of income is determined in the following manner:
 - Compensation paid to employees and independent contractors, income is sourced to the country where services are performed.
 - For non-compensation payments such as scholarships/fellowships, grants, prizes and awards, the source of income is the residence of the payor regardless of who actually disburses the funds.

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Step 4 – Is the Payment Subject to Income Tax Withholding?



- Resident Alien (similar to U.S. Citizens)
 - withholding tax rules and rates
- Non-resident Alien U.S. sourced income is taxable with a few exceptions.
 - Federal Tax Rate 14%-30%
 - NC Tax Rate 4% Contractors with ITINs (\$1,500 threshold)
 - Tax Treaties

Winds	star
prod Fund - R	duable software that stores all your foreign national information and uces your tax documents. It is software can produce: W-4 W-8BEN 8233 W-9
– A	roduces 1042-S and 1042 forms. ssists with electronic 1042 submission file. tuns useful reports.



Step 5 - Payment Subject to FICA?

Non-resident Alien

- The only aliens exempt from FICA are the following Nonresident Alien visa holders:
 - F-1
 - J-1
 - M-1Q-1
- The above visa holders are subject to FICA taxes for the entire year (January 1) they become resident aliens.

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Withholding Federal Income Tax

- Form W-4 for NRA's
 - The following employees may claim any number of legitimate dependent exemptions
 - Residents of Canada, Mexico and South Korea
 - Business Apprentices and Students from India for spouses and for children who are U.S. citizens or resident aliens
 - Nationals of American Samoa and Northern Mariana Islands
 - Must write "NRA" or "Nonresident Alien" above dotted line - on line 6.



Treaty Benefit Eligibility and Payments to NRAs

- The U.S. has treaties with over 60 countries around the world affecting payments to foreign nationals
- Offer tax exemptions within the U.S. for foreign nationals who were or are tax residents (not citizens) of a treaty country and meet specific criteria

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Considerations When Granting Treaty Benefits

- U.S. tax status: NRA or RA
- Required Social Security Number or ITIN
- Country of tax residency (may not be country who issued visa)
- Primary purpose of visit as evidenced by
 - DS-2019 for J Exchange Visitors
 - I-797 approval notices for H-1B, O-1, Q
 - I-20 for F and M visitors
- Status of the organization (educational, research, medical, etc.)
- Type of Income Paid
 - Conducting research, teaching, training, other paid activities

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Considerations When Granting Treaty Benefits (cont.)

- Benefit Limitations
 - Retroactive Loss of Benefits
 - Prospective Loss of Benefits
 - One-Time Use
- · Requirement to Re-establish Residency
 - Back-to-back Rule
 - Combine Benefit Period
- Saving Clause and Exceptions

Windstar will denote exceptions to consider

Step 6 – Determining if a Payment is Reportable and How



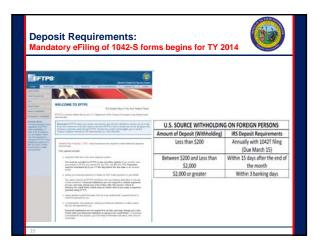
Nonresident Alien

- Payments are reported to the federal government in the following manner:
 - Forms Issued
 - W-2 Taxable Employment
 Income
 - 1042-S
 - Any treaty-exempt income
 - All other U.S.-Source
 Taxable Income and
 Taxes Withheld Form
 1042-S

NO Form 1099

Resident Alien

- Payments reported in the same manner as U.S. Citizens.
 - Forms Issued
 - W-2 Taxable Employment Income
 - 1099
 - 1. Non-employee Compensation
 - 2. Other Income
 - 1042-S
 - Any treaty-exempt income





Common Errors & Friendly Reminders

- W-8 BEN Validity Periods (TBD FATCA)
 - If TIN included, then forever unless facts change, or if no payments are made to NRA for 1 year.
 - If no TIN (but caution if TIN require to be valid claim), then valid the year receive plus 3 full calendar years.
 - Only valid for the treaty payment being made
- Are you aware of the proposed changes in the Foreign Account Tax Compliance Act (FATCA) and the new form W-8BEN-E?
 - How is this going to impact your business practices?
 - Do you need to file for a FIRE System Account?

Common Errors & Friendly Reminders	S. C. C.
Form 8233 with Certifying Statement from NRA	

- Fo
 - TIN Required
 - · Can attach copy of SSN application receipt
 - Must submit to IRS within 5 days of accepting
 - IRS has 10 business days to reject treaty
- Special Handling is required for payments to F-1 and J-1's from other universities/community.
- Required to ensure F-1 or J-1 is still in status.



Common Errors & Friendly Reminders

- Employment Income
 Claiming incorrect personal exemptions
 Resident Alien

 - SingleMarried filing separately
 - Married filing jointly
 Head of household
 - Non-Resident Alien

 - on-Nessueric Aueri

 Single

 Married (either alone, with spousal exemption, or filing separately)

 Form W-4-Single 0 or 1 (unless an exception applies)

 - Payment of Stipends

 Taxable vs. Non-taxable
 - Form 8233
 - Institution files vs. IRS files



BEST PRACTICE!!!

Best practices in making payment to non-resident Aliens (NRAs)

- Implement policies and procedures for meeting IRS due diligence.
 - Recommend posting them to your website
- Keep up-to-date on rules and forms procedures they change frequently!

Immigration risk for your institution

- Unauthorized workers performing services
 - Non-sponsored employees performing services for your institution
 - Foreign nationals not authorized to perform independent services
 - Have you established a process to ensure your departments know who they can and can't contract with?

Summary



- · Determine the foreign national's U.S. tax status SPT
- Perform due diligence with NRA
- · Complete and file all required IRS forms
- Withhold on and report income correctly to avoid unnecessary assessments, fines and penalties
- Provide tax benefits to students, professors, researchers, medical residents, trainees, interns, and independent contractors
- Remember treaty benefits should only be provided to foreign national's who have either an ITIN or Social Security number
- Be fair but when in doubt be conservative. Better to tax and let them request a refund than not to tax at all and be fined.
- Be prepared for an IRS audit where is your audit trail??????

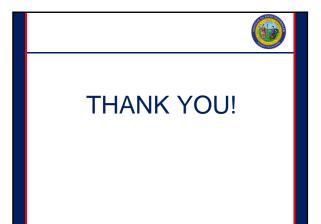
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Contact Information

- Any questions that are not handled within the presentation will be responded to via email.
- Follow-up questions can be submitted to Jennifer Pacheco, with the NC Office of the State Controller, at <u>jennifer.pacheco@osc.nc.gov</u> or 919-707-0764.
- For additional training opportunities please visit:
 - http://www.osc.nc.gov/Foreign Nationals/training.html





Appendix

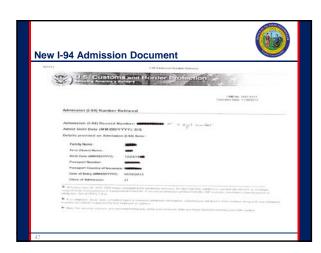
The Appendix will not be covered during this training. This is provided as additional resources.

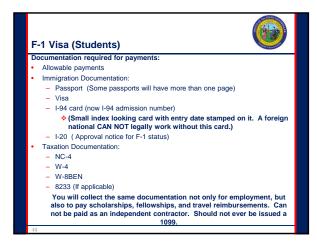
NEW I-94 Admission Process!

- CBP changed process in April/May 2013
 - No longer issuing the I-94 card to most foreign nationals entering the U.S. from abroad
 - Passport stamp instead with limited information

 - Foreign national can go online after entry to www.cbp.gov/194 to enter information and print out admission information
 I-94 number and information is still required by USCIS for the I-9 process, for drivers licenses, SSN applications, etc., so ask your foreign national employees for this print-out!







F-1 Visa CPT (Curricular Practical Training)	
Documentation required for payments:	
Immigration Documentation:	
- Passport	
- Visa	
- I-94	
- I-20	
• (I-20 must have the employers information listed on page 3 of the I-20. Without this notation the employment is not legal.)	
Taxation Documentation:	
- NC-4	
- W-4	
- W-8BEN	
You will collect the same documentation not only for employment,	
but also to pay travel reimbursements. Should not be paid as an independent contractor if in NRA tax status. Should not be issued a	
1099 in NRA tax status.	
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F-1 Visa OPT (Optional Practical Training)	
Documentation required for payments:	
Immigration Documentation:	
- Passport	

 I-20 (must state that they are on OPT)
 Valid EAD Card (Employment Authorization Document)
 Employment must be related to their field of study listed on the l- 20.
Taxation Documentation:
- NC-4
- W-4
- W-8BEN
You will collect the same documentation not only for employment, but also to pay travel reimbursements. Should not be paid as an independent contractor if in NRA tax status. Should not be issued a 1099 in NRA tax status.

J-	1 Student Visa
Do	ocumentation required for payments:
•	Immigration Documentation:
	- Passport
	- Visa
	 I-94 Card (now I-94 admission number)
	 DS-2019 (Approval notice: Must show student sub-category)
•	Taxation Documentation:
	- NC-4
	- W-4
	- W-8BEN

 8233 (If applicable)
 You will collect the same documentation not only for employment, but also to pay scholarships, fellowships, and travel reimbursements. Can not be paid as an independent contractor. Should not ever be issued a 1099.



J-1 Visa (Curricular Practical Training)

Documentation required for payments:

- Immigration Documentation:
 - Passport
 - Visa
 - **-** I-94
 - DS-2019 (Must show student sub-category)
- Taxation Documentation:
 - NC-4
 - 10/ 4
 - W-8BEN
 - 8233 (If applicable)
- Letter from Institution attached to DS-2019

You will collect the same documentation not only for employment, but also to pay travel reimbursements. Should not be paid as an independent contractor if in NRA tax status. Should not be issued a 1099 in NRA tax status.



J-1 Visa (Optional Practical Training)

On or Off-Campus Employment

- Academic Training J-1
 - During or after completion of their academic degree for a total of 18 months
 - Employment must be related and appropriate to the level and field of study
 - Commence within 30 days of completion of their academic program
 - Postdoctoral students are eligible for 36 months
 - Authorization is by written approval from Responsible Officer (RO)
 - NO EAD is required
- Documentation required for payments
 - See previous slide

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J-1 Visa (Student Intern)

Documentation required for payments:

- Immigration Documentation:
- Passport
- Visa
- I-94
- DS-2019 (Must show student intern sub-category)
- Taxation Documentation:
 - NC-4W-4
 - W-8BEN
 - No Treaty (Be extremely careful when entering this category into Windstar)

You will collect the same documentation not only for employment, but also to pay travel reimbursements. Should not be paid as an independent contractor if in NRA tax status. Should not be issued a 1099 in NRA tax status.

H1-B, E-3 & O-1 Visas	5		
Documentation required	for payments:		
Immigration Documenta			
 Passport 			
- Visa			
 I-94 Card 			
 I-797 (Approval Notice 	9)		
 Taxation Documentation 	ነ:		
- NC-4			
W-4W-8BEN (NRA) or W-9) (PA)		
	e careful with these treaties. Make sure yo		
	s before issuing the tax treaty.)	u	
	reign national applies for permanent		
	longer eligible for tax treaty.		
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TN-Visa (Canada/Me)	(ico)		
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Documentation required Immigration Documentatio Passport I-94 Card (Must have of the dates listed on the I-797 (May or may not) Taxation Documentation: NC-4 W-4	for payments: n: duration of stay. Only eligible to be employ I-94 card.) have an approval notice)	ed for	



Employment Authorization Documents

Documentation required for payments: Immigration Documentation:

- Passport
- Visa
- I-94 Card
- EAD Card
- Taxation Documentation:
- NC-4
- W-4
- W-8BEN (NRA) or W-9 (RA)

You must review the authorization code. Taxation requirements correspond with the authorization codes.
Link to EAD codes: http://www.uscis.gov/portal/site/uscis/menuitem.5af9bb95919f35e66f61417 6543f6d1a/?vgnextoid=f3c02af9f0101310VgnVCM100000082ca60aRCRD

Employr	nent Authorization Document - Codes	
Co	de Description	
A01	Lawful Permanent Resident of the United States	
A01A	Legalization applicant granted temporary residence	
A028	A seasonal agricultural worker granted temporary residence	
A03	Admitted to the United States as a refugee	
A04	Paroled into the United States as a refugee	
A05	Application for asylum has been granted	
A06	A fiancé(e) of a United States citizen with K-1 nonimmigrant status; or the dependent of a fiancé(e) of a United States citizen with K-2 nonimmigrant status	
A07	N-8 or N-9 nonimmigrant	
A08	A citizen of the Federated States of Micronesia or of the Marshall Islands	
A10	Granted a withholding of deportation	
A11	Granted extended voluntary departure by the AG as a member of a nationality group pursuant to a request of the Secretary of State	
A12	Granted Temporary Protected Status	
A13	Granted voluntary departure status by the AG under the Family Unity Program	
A14	Granted Family Unity benefits under the Life Act Amendments	
A15	A V nonimmigrant	
A16	A T nonimmigrant (victim of a severe form of trafficking in persons)	
A17	Spouse of an E-1/E-2 Treaty Trader or Investor	
418	Spouse of an I -1 Intracompany Transferse	

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Scholarships – Per Publication 970

Qualified

- A scholarship or fellowship is tax free (excludable from gross income) only if you are a candidate for a degree at an eligible educational institution
- It does not exceed your expenses;
 It is not designated or earmarked for other purposes (such as room and board), and does not require (by its terms) that it cannot be used for qualified education expenses; and
 It does not represent payment for teaching, research, or other services required as a condition for receiving the scholarship (with a few small exceptions)

Non-Qualified

- Scholarship Fellowship payments issued to nonresidents for tax purposes, are subject to 30% federal withholding with the following exceptions;
 - Under IRC section 1441 (b) a reduced rate of 14% is granted to F, J, M, and Q visa holders.
 - Income that is exempt from Federal Withholding due to a Tax Treaty

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Scholarships – Qualified vs. Non-Qualified

Table 1-1. Tax Treatment of Scholarship and Fellowship Payments*

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	AND you are		THEN your payment is	
IF you use the payment for	A degree candidate	Not a degree candidate	Tax free?	Taxable
Tuition	×		X	1
		X	-	X
666	X		Xs.	
		X		X
Books	X		X1	
		X		X
Supplies	X		Xs.	
		X		X
Equipment	×		X2	
		X	100	X
loom.	X			X
	2 =	X		X
Board	X			X
		X		X
Travel	X			X
	-	x		X

Please note this chart is from the 2011 Publication 970