

HARVARD
FINANCIAL ADMINISTRATION



Fellowships Toolkit:

*A Reference Guide to
Fellowships, Reimbursements and Other Payments
to U.S. Citizens and Non-Resident Aliens*

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Introduction: How to Use this Toolkit

I need to make a payment to a student, postdoc or fellow. I'm not sure how to process it. Where do I start?

This toolkit covers the most fundamental fellowship questions to the more challenging ones. If you are new to fellowships, you may want to start at the beginning. If you are more familiar with fellowships and have a specific question, you can use the table of contents to find what you're looking for.

There are two main questions that come up with respect to fellowships and other payments to students and fellows, and this toolkit has a section to help you answer each one, plus a third section that includes answers to related questions.

SECTION 1. Is the recipient an employee or a non-employee?

It's often helpful to first determine if the person receiving the payment is an employee or a non-employee, because generally, fellowship payments aren't paid to employees – at least not in their capacity as employees. This can be confusing because at Harvard, we have employees we call “fellows” but we have non-employee fellows with the same job titles as employees. The only way to be sure is to check the individual's PeopleSoft earnings code. Use Section 1 of this toolkit to help you determine if the recipient is an employee or a non-employee.

If the recipient of the payment is an employee, go to Appendix A, “Most Common Types of Payments to Employees,” which will show you how to process different types of payments and what the tax implications are for U.S. tax residents and for non-resident aliens.

If the recipient of the payment is a non-employee – and you know what type of payment you are making -- you can go straight to Appendix B, “Most Common Types of Payments to Non-Employees,” which will show you how to process different types of payments and what the tax implications are for U.S. tax residents and for non-resident aliens. If you need help determining what type of payment you are making or whether the payment you are making is a fellowship or a reimbursement, see Section 2.

SECTION 2. What type of payment are you making?

Sometimes it can be difficult to tell what type of payment you are making, particularly the distinction between a payment that is primarily for the benefit of the individual (fellowship payment) or a business expense primarily for the benefit of the University (a reimbursement). Harvard has a policy, Fellowship Payments and Reimbursements for Students, Non-employee Postdocs/Fellows, which establishes guidelines for each type of payment. This section has a decision tree to help you determine what type of payment you are making, plus detailed guidance on how to tell the difference between a fellowship payment and a business expense reimbursement.

SECTION 3. How do I process a third-party payment (and other frequently asked questions)?

Section 3 of this toolkit has information on common topics related to fellowships and other payments.

Basic Tax Concepts

Before discussing fellowships, it's helpful to first outline a few basic tax concepts:

- **Gross income:** if a payment represents gross income to an individual, that person is required to report it on his or her personal tax return. Whether or not the individual will actually owe taxes on that gross income depends on many factors, including the total amount of gross income from all sources, deductions and withholdings. Every single time Harvard transfers money or other value to someone, *even to reimburse that person for an expense*, it's considered gross income to the recipient – unless an exclusion applies. For example:
 - Salaries and wages are subject to payroll taxes
 - Even the use of an employee's desk and computer is excludible as a "working condition fringe benefit"
 - Business expense reimbursements must meet the IRS "accountable plan" rules to be excluded from income
 - Scholarships must meet "qualified scholarship" criteria to be excluded from gross income
- **Withholdings:** on certain payments, the IRS requires Harvard to take out an amount for taxes up front. Depending on personal tax circumstances, an individual may get some or all of the withholdings back after filing an annual personal income tax return.
- **Business expense reimbursement:** a type of payment that is excluded from the recipient's income. To qualify as a University business expense reimbursement, a payment must comply with the Travel Policy, Business Expense Reimbursement Policy as well as the Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows Policy.

What is a Fellowship Payment...and Why Is It Important?

- A fellowship payment is money or other value (like plane tickets or other travel expenses) paid to or allowed on behalf of an individual to aid that individual in his or her personal scholarship.
 - Fellowships are often paid to undergraduate and graduate students, postdocs, and visiting scholars
 - A fellowship can be nontaxable to the recipient if the fellowship payment is for required tuition and fees as part of a degree program (essentially tuition assistance). This type of payment is referred to as a qualified payment.
 - Other fellowships are potentially taxable to the recipient. Some examples of taxable fellowship payments:
 - Stipend payments (often monthly support payments)
 - Reimbursement or payment of expenses, such as travel expenses, to or on behalf of an individual
- Fellowships can easily be mistaken for a business expense reimbursement. If this happens, the recipient will potentially underreport income and the related taxes he or she owes.
- **If Harvard mischaracterizes a fellowship payment for a business expense reimbursement, the recipient is at risk = during a personal audit, the IRS will disregard Harvard's determination and hold the recipient liable for the tax plus interest and penalties. This has happened at peer institutions!**
- **Harvard has to make these determinations correctly to protect our students, postdocs – and the University.**

Tax Consequences of Fellowship Payments

Fellowship payments have specific tax consequences for recipients, and these consequences differ for U.S. tax residents and non-resident aliens. Unless a fellowship is for required tuition and fees for a degree program (qualified payment), it is always **reportable gross income** to the recipient, meaning the recipient is supposed to report the gross income on his or her tax return and may need to pay taxes on it.

For U.S. tax residents: Harvard doesn't need to withhold taxes or report the amount of the fellowship payment to the IRS. Responsibility for reporting the income and paying any taxes rests solely with the recipient. This means the amount of a fellowship payment to a U.S. tax resident will be the same when paid, since no taxes are taken out, but the recipient may need to pay taxes on that amount when he or she files a tax return at the end of the year. All Harvard fellows should be told to consult a tax advisor before filing their tax returns.

For non-resident aliens: Harvard **does** need to withhold taxes and report the income to the IRS and on Form 1042-S. This means that the net amount of a fellowship payment to a non-resident alien **may be reduced** because taxes are taken out, typically at 14% or 30%. Some countries have a tax treaty with the U.S. that reduces the amount of withholding required. The Non-Resident Alien Tax group in Central Payroll can provide more information on withholding rates for NRAs and tax treaty benefits.

Tax Advice: No Harvard University employee may provide individuals with specific advice on personal tax matters; individuals in need of personal advice should consult a personal tax advisor.

**SECTION 1: IS THE RECIPIENT AN EMPLOYEE OR A
NON-EMPLOYEE?**

Is the Recipient an Employee for Payment Processing Purposes?

Step 1: Are you paying an employee? If so, stop here: in most situations, employees incurring expenses (in their capacity as employees) are assumed to be incurring business expenses, not fellowships. If you're paying an employee, skip to Appendix A to see how to process common payments to employees.

Not sure if the person you're paying is an employee? Here's how to tell: determine which PeopleSoft pay group the recipient belongs to. PeopleSoft pay groups are special three-letter codes that classify individuals for payment purposes. If you don't know a person's PeopleSoft pay group, you can ask your department administrator (or you can look it up in PeopleSoft if you have access).

| Employee Type | Pay Group | Common Object Codes |
|---|-------------------------|------------------------------|
| Pay groups treated as EMPLOYEES for PAYMENT PROCESSING purposes: | | |
| Weekly Trades | SPC, WPT, WRT | 6080, 6090 |
| Bi-Weekly Non-Exempt (OT Eligible) | POU, PON | 6070 |
| Bi-Weekly Exempt | PFX | 6050 |
| Monthly Faculty | MFC | 6010, 6020, 6030, 6110, 6120 |
| Internal Post Docs | MIP | 6150, 6152 |
| Pay groups treated as NON-EMPLOYEES for PAYMENT PROCESSING purposes: | | |
| Weekly Temps | WTM | 6110, 6120 |
| Monthly Teaching Fellow | MTF | 6140 |
| External Post Doc | MEP | 6450, 6452 |
| Student Stipend | MST | 6440 |
| Hires Pay Groups | HRH, HRA, HRM, HRW | N/A |
| Non-Paid | NPD | N/A |
| Long Term Disability | LTD | N/A |
| Retiree Payrolls | RET, RMF | N/A |
| Outsourced payrolls | OUB, OUM, OUS, OUW, OWC | N/A |

Employee Fellows vs. Non-employee Fellows

At Harvard, we use the term “fellow” to refer to:

| Term | PeopleSoft pay group | Employee or Non-employee for Tax Purposes? | Common Object Codes Used for Recurring Payments via Payroll | Description |
|---|------------------------------|--|---|--|
| Stipendee Postdocs (or External Postdocs) | MEP | Non-employee | 6450, 6452 | These appointments include Postdocs who may work under the direction of a Harvard principal investigator, but to whom payment is in the form of a stipend. |
| Employee Postdocs (or Internal Postdocs) | MIP | Employee | 6150, 6152 | These appointments include Postdocs who work under the direction of a Harvard principal investigator |
| Monthly teaching fellows, research assistants, others Monthly stipend recipients or students receiving financial aid Other academic appointments | MTF MST | Non-employee | 6140 6120 | Non-employees who are ineligible for benefits but are paid via Harvard payroll |

This means a person’s Harvard job title is not necessarily an indication of their employee status, and therefore is not necessarily an indication of his or her tax status.

To be sure of an individual’s tax status, you must check his or her pay group in PeopleSoft. Typically, the determination of which role is an employee and which role is a non-employee fellow is made by either Faculty Affairs or Human Resources.

SECTION 2: WHAT TYPE OF PAYMENT ARE YOU MAKING?

Decision Tree: Common Payments to Students and Non-employee Postdocs/Fellows⁽¹⁾

| | | | | | |
|--|---|---|--|--|--|
| <p>START</p> <p>Is this payment for required tuition and fees for a degree program?</p> <p><i>See page 13 for more information.</i></p> <p>NO</p> | <p>Is this payment based on a past accomplishment (e.g., earning the highest GPA, delivering best presentation, etc.)?</p> <p><i>See page 16 for more information.</i></p> <p>NO</p> | <p>Does/did this payment require the recipient to perform services for Harvard (e.g., teaching, speaking)?</p> <p>NO</p> | <p>Is this payment for personal research/personal scholarship or living support (room and board, etc.)?</p> <p><i>See page 14 for more information.</i></p> <p>NO</p> | <p>Is this payment to reimburse travel or other expenses?</p> <p>NO</p> | <p><i>You need more information. Please call your tub finance office for assistance.</i></p> |
| <p>YES</p> | <p>YES</p> | <p>YES</p> | <p>YES</p> | <p>YES</p> | |
| <p>This payment is a QUALIFIED (nontaxable) SCHOLARSHIP/ FELLOWSHIP. Object codes 6410, 6430 For NRAs, apply directly to term bill if possible</p> | <p>This payment is a PRIZE (reportable/taxable) 1099 if >=\$600 AS OF 1/21/15 USE object code <u>6462</u> for Students, 8693 for Nonstudents</p> | <p>This is a (reportable) SERVICE PAYMENT (2) 1099 if >=\$600. Use object code that reflects nature of expense (e.g., tech consulting).</p> | <p>This is a NON-QUALIFIED (taxable) SCHOLARSHIP/ FELLOWSHIP payment. AS OF 1/1/15 USE object codes 644 AND 6460 (for students) and 6450, 6452, 6455 (for non-employee postdocs/fellows)</p> | <p>See NEXT PAGE: “Expense Reimbursements for Students and Non-employee Postdocs/Fellows” for more information.</p> | |

(1) For guidance on payments to employees, see Appendix A, “Most Common Types of Payments to Employees” matrix

(2) A SERVICE PAYMENT is cash or other value transferred to a non-employee as compensation for services provided to the University.

Expense Reimbursements for Students and Non-employee Postdocs/Fellows

| | | |
|---|--|--|
| <p>START</p> <p>Is the expense a “pass through course cost” for a student enrolled in a degree program?</p> <p><i>See page 13 for more information.</i></p> | <p>Is the expense appropriate to charge to a faculty member’s grant funds or to other departmental research funds; or</p> <p>Are the expenses incurred in the course of activity where the purpose and original intent is for the University to obtain useful results from the project/research; or</p> <p>Are the expenses incurred in the course of activity where results or research will be used by the University; or</p> <p>Are the expenses incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI?</p> <p><i>See pages 14 and 15 for more information.</i></p> | <p>This is a NON-QUALIFIED (taxable) FELLOWSHIP payment.</p> <p>Object codes 6440 AND 6460 (students); 6455 (nonemployee postdocs/fellows)</p> <p>Treat as reportable fellowship income (process as an HCOM Payment Request (“PR”) with description: “Fellowship payment: [business purpose]”</p> <p>Example: “Fellowship payment: summer 2014 travel award for B. Kimball, 6/28/14”</p> |
| <p>YES</p> | <p>YES</p> | <p>NO</p> |
| <p>This is a NONTAXABLE REIMBURSEMENT. <i>(“Check the box”)</i></p> <p>Use object code that reflects the nature of expense (e.g., travel, lodging, supplies). treat as a non-employee reimbursement (process as an HCOM Non Employee Reimbursement (“NR”), with description “Non-employee reimbursement: expenses in direct support of Harvard research – [business purpose]”</p> <p>Example: “expenses in direct support of Harvard research – J. Smith presenting on behalf of Professor Jones at 2014 APA conference, Chicago 9/28/2014”</p> | | |

NOTE: The source of funding (i.e., sponsored research award) does NOT affect the tax treatment of the expense. The tax treatment of the expense ALWAYS hinges on whether or not it is in DIRECT SUPPORT of University business.

Qualified Fellowships and Pass-through Course Costs

- A fellowship can be qualified, meaning non-taxable to the recipient, if it is for required tuition and fees for a degree program. At Harvard we usually call qualified fellowship payments “scholarships.”
- However, payment for travel expenses can also be qualified, meaning non-taxable to the recipient, if:
 - The travel is required as part of a course (see below); and
 - The recipient is a registered degree candidate; and
 - The expenses are necessary in delivering the course and budgeted as part of the course cost.
- Payment or reimbursement by Harvard of such expenses will generally be treated as merely the payment of a Harvard business expense and not the provision of a scholarship or fellowship to the recipient.
- Process on a Non-employee Reimbursement (“NR”) and include in the business purpose a description of the expense and “required course cost for degree candidate.”
- Note: the costs must be related to a requirement of a course; costs related to a requirement of a program unconnected to a specific course must be treated as fellowship payments

Fellowships and Personal Research vs. Business Expense Reimbursements

- Non-employee postdocs/fellows and students are *generally assumed* to be pursuing their own personal research or scholarship while at Harvard. Payments to support an individual in his or her own personal research or scholarship must be treated as fellowship payments. Generally, payment of travel and other expenses of students and postdocs/fellows at Harvard are presumed to be fellowship payments.
- Given the complex and often interrelated nature of student/postdoc /fellow and faculty research, sometimes departments must delineate what is a University business expense reimbursement and what is a fellowship payment.
 - This often comes up around institutional allowances or trainee-related expenses on grants.
 - Common pay groups are Non-employee Fellows (MEPs), Monthly Teaching Fellows (MTFs) or students receiving financial aid (MSTs)
- Subject to local policy and budget, Harvard is permitted to reimburse students and postdocs/fellows, whether or not they are employees, for travel and other expenses when the expenses are in direct support of University research.
- Research expenses incurred by a student or non-employee postdoc/fellow may be reimbursed as University business expenses if a faculty member or another authorized Harvard employee determines that the expenses are in **direct support** of University research or scholarship and therefore constitute a legitimate Harvard business expense. **Characterizing an expense as direct support requires a business judgment by the faculty member or another University employee that the particular expense is appropriate to reimburse because it is anticipated that payment of the expense assists in advancing University research or scholarship.**
- Characteristics of expenses in direct support of University research or scholarship:
 - The expense is appropriate to charge to a faculty member's grant funds or to other departmental funds; or
 - Expenses are incurred in the course of activity where the purpose and original intent is for the University to obtain useful results from the project/research; or
 - Expenses are incurred in the course of activity where results or research will be used by the University; or
 - Expenses are incurred in the course of research or other activity performed to fulfill University's obligations to an outside funding entity; or
 - Expenses are incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI.
- All expenses must still meet the criteria for University business expenses under the accountable plan rules outlined in the Business Expense Reimbursement and Travel Policies; if not, they must be treated as income and submitted and paid through Accounts Payable as fellowship payments.

Examples: Travel, Conferences, and Other Expenses

Examples of Business Expense Reimbursements (Meet Exclusion from Gross Income to the Recipient)

- a. A graduate student uses a portion of the institutional allowance on her grant on gene sequencing services related to her research. This research is in direct support of her faculty mentor's research project.
- b. A student incurs travel expenses while traveling to California to present at a conference, where the student's and mentor's names are published (poster, website, brochure) as a presenter/contributor at the conference.
- c. A postdoc incurs travel expenses while traveling to New York to attend a conference and is expected to gain scholarly information to be shared with Harvard colleagues.
- d. A student incurs travel and other research expenses while traveling to Brazil to perform research, which happens to be the topic of her dissertation. The student's research is expected to yield information important to a Harvard PI's research project.
- e. A postdoc incurs research expenses while conducting experiments in a field of study supported by a Harvard department.

Examples of Fellowships (Do Not Meet Exclusion from Gross Income to the Recipient)

- a. Student travels to France for dissertation research which is not expected to provide information directly related to Harvard's own research activities – the student dissertation is the primary purpose of the travel – the student is the primary beneficiary.
- b. Student travels to a conference in Canada as an attendee and does not present/contribute in official capacity, nor is expected to bring back and share information from the conference with others at Harvard.
- c. Student travels to China for Mandarin language training which will assist in language proficiency needed for degree. This is supplemental work that the student may need to succeed, but it is not a required part of the degree.
- d. A post doc is allowed to spend a portion of the institutional allowance on his grant on health insurance. This is a personal benefit to the post-doc and the expense is treated as a fellowship payment.

How Are Prizes Different from Fellowship Payments?

- At Harvard, we sometimes use the term “prize” to describe money paid to an individual to support his or her research or travel. Again, to the IRS the term “prize” has a specific definition and tax implications: **a prize is always based on a past accomplishment**, like winning a business plan competition, winning a debate, etc.
- **For U.S. tax residents**, Harvard doesn’t need to withhold taxes on prizes. However, Harvard must report to the IRS and issue prize recipients a Form 1099 if the prize amount is \$600 or more.
- **For non-resident aliens**, Harvard **does** need to withhold taxes and report the prize income to the IRS and issue the recipient a Form 1042-S – even if less than \$600. As with fellowship payments, this means that the amount of a prize paid to a non-resident alien **may be less** when paid, since taxes are withheld. Some countries have a tax treaty with the U.S. that reduces the amount of withholding required.
- Prizes must be processed like a Payment Request (“PR”) in HCOM.

Case Study: Is this a fellowship or a prize?

- Students submit a proposal to do research; students that are selected have to deliver a presentation at the end of the semester about their work. The presentation is required to ensure the student is accountable and completes the work as proposed. Is this a fellowship or a prize?
- A: Fellowship – it’s not for past services; although the students had to write a proposal, the proposal is ancillary to the research itself. Similarly, the talk is a required component, but it is incidental to the research itself. This is different from hiring a professional speaker to deliver a lecture; in such a case, the payment is for the lecture itself, not for a larger activity of which the lecture is an incidental part.

SECTION 3: FREQUENTLY ASKED QUESTIONS

How Do I “Gross up” a Fellowship Payment to Cover Taxes?

In certain situations where budget, University and departmental policy allow, departments may wish to “gross up” a payment to neutralize the tax impact to the individual, even though this will substantially increase the cost of the payment to the paying department. This is most commonly done for payments to foreign nationals where there is required withholding; grossing up the payment ensures that the individual receives the entirety of a given amount after taxes. Depending on the particular situation, withholding on payments to foreign nationals is typically 14% or 30%.

Before grossing up a payment, departments are encouraged to contact the Office of the Controller’s NRA Tax Group at 5-8500 to confirm the recipient’s tax status and withholding rate. Due to the significant cost, gross ups must come out of the requesting department’s budget.

Example: How do I “gross up” a check so the net is \$100 after withholding taxes at 14%?

To calculate gross up:

1. Determine the tax rate
2. Calculate $100\% - \text{tax rate}\% = \text{Net}\%$
3. $\text{Desired end payment} / \text{Net}\% = \text{Gross amount of earnings}$
4. Double check by calculating gross to net pay

For example, to calculate gross up on a \$100 payment:

| Step | Description | Notes/Calculation |
|------|--|---|
| 1 | Determine the tax rate | Assume this payment must be taxed at the rate of 14% |
| 2 | Calculate 100% – tax rate% | $100\% - 14\% = 86\%$ |
| 3 | Desired end payment /Net% | $\$100$ (desired net payment)/ 86% (net %) = $\$116.28$ (grossed-up amount of earnings) |
| 4 | Double check your formula by calculating gross-to-net pay | $\$116.28 \times 14\% = \16.28 (tax withheld) $\$116.28 - \$16.28 = \$100$ (correct desired end payment) |

How Do I Process a Third-Party Payment?


Why is this required? If you pay a vendor *on behalf of another individual* (i.e., you pay for house hunting expenses for a newly-recruited postdoc), the payment may represent taxable income to the person benefitting from the payment. In order to properly account for the tax liability to the individual, AP requires a special process for these types of “third-party” payments. This process is required to pay or reimburse the correct vendor or person (called “the alternate payee”) while simultaneously adding imputed income to the benefitted individual’s tax record.

You may need to process a third-party payment if you pay a vendor on behalf of a postdoc, if the payment represents income to the postdoc.

Process:

1. Use the Oracle Vendor Request Form to add a “site” to the benefitted individual’s vendor profile that reads: “or [alternate payee’s name]”, with alternate payee’s address
2. Once new site is set up, choose the name of the benefitted individual (who is receiving the imputed income) as the vendor for payment.
3. Choose the site that lists the alternate payee’s name (the person who is being reimbursed or the vendor who is being paid) in the first line of the site.

Example: Harvard paid Harvard Pilgrim Healthcare \$1000 for Sally Smith’s health insurance, which represents taxable income for Sally Smith.

| Step 1 | Step 2 | Step 3 |
|--|--|---|
| <p>Use the Oracle Vendor Request Form to add a “site” to Sally Smith’s vendor profile so that reads:</p> <p>SALLY SMITH OR HARVARD PILGRIM HEALTHCARE 123 MAIN STREET CAMBRIDGE, MA 02138-0001</p>  <p>Harvard Pilgrim Healthcare's address</p> | <p>Once the new site is set up, create the payment request and choose Sally Smith (the benefitted individual) as the vendor for payment</p> | <p>Select the Sally Smith vendor profile that contains the alternate payee vendor site for processing the payment request in HCOM</p> <p>SALLY SMITH OR HARVARD PILGRIM HEALTHCARE 123 MAIN STREET CAMBRIDGE, MA 02138-0001</p> |

To “gross up” a third party payment (so that a nonresident alien gets the full amount after taxes are withheld):

- Contact AP to get the correct tax rate for the payment (based on the individual’s visa type and the type of payment being made)
- Using the tax rate, calculate the grossed up amount of the payment (see page 18 for instructions)
- Payee must be the NRA, and the third party (to be paid) must be listed as the payment site.
- Cross out the original amount of the invoice and write in the grossed up amount
- Add a cover sheet, clearly indicating that you are processing a NRA third-party payment and grossing it up.

How Do I Identify U.S. Source vs. Foreign Source Income for Fellowships?

If you are paying a fellowship for activities that take place outside of the US, you need to determine the source of the income.

- Nonresident aliens, for tax purposes, unlike U.S. citizens and residents, are only subject to tax on income that is considered U.S. Source Income by the IRS. Foreign Source Income received by nonresident aliens is not subject to U.S. taxation. If the funds will be used outside the U.S. there is no U.S. tax withholding/Reporting done.
- U.S. Source Income - income is generally considered U.S. Source if the location of the activity for which the payment is being made is in the U.S.
- Foreign Source Income - income is generally considered foreign source if the location of the activity for which the payment is being made is outside the U.S.
- Note that **prizes** are always considered U.S. source income and, like service income, are reportable for US citizens who must get a Form 1099 from Harvard if the prize is \$600 or more; prizes paid to non-resident aliens must have taxes taken out (if no tax treaty benefits apply) and will be reported on Form 1042-S.

What Funds Can Be Used to Cover Benefit Costs?

A note on fellowships and sponsored funds:

Certain grants cap the amount of money that can be paid to fellows and postdocs for benefits. In some situations, there may be a gap between what Harvard typically pays for benefits and what the grant will reimburse. Typically, these gaps must be covered by other allowable sources such as a research department's owned funds or a faculty member's funds.

What Should I Include in the Business Purpose?

As required by the IRS, the Business Purpose field **MUST** contain the following information:

| Business Purpose Details | Examples of Complete, Acceptable Business Purposes for Fellowships and Reimbursements |
|--|---|
| <ul style="list-style-type: none">• Who incurred the expense• What the expense entailed• When the expense was incurred• Where the expense was incurred• Why this is a Harvard expense<ul style="list-style-type: none">○ Who else was involved if this is a business entertainment expense | <ul style="list-style-type: none">• (Fellowship payment) “Travel allowance for John Smith 1/1/2014 – 1/31/2014.”• (Non-employee reimbursement) “Airfare for Jane Smith to present <u>on behalf of Professor X’s lab</u> at ABC Conference in Chicago on 1/8/2014.” |

What Are School and Central Responsibilities?

While Central Administration may audit paperwork submitted by departments to check for errors and violations of policy, it is the submitting department's responsibility to ensure that the payment and reimbursement requests they submit are correct, complete and in compliance with applicable tax laws and Harvard University policy.

The Central Administration audit process is not a substitute for the submitting department's own due diligence. If a department has a question about how to properly treat or process a payment, the department must contact their tub financial office or Central Administration in advance to seek guidance on how to prepare and submit a payment or reimbursement.

| Preparer Responsibilities | Approver Responsibilities | Central Responsibilities |
|--|--|--|
| <ul style="list-style-type: none">• When preparing a reimbursement request, ensure that the expense is for University business as outlined in University policy• Review backup for accuracy and compliance with University and local policy• Submit a complete business purpose• Ensure documentation is sent to approver with enough time for approver review and Central processing | <ul style="list-style-type: none">• When approving a reimbursement request, ensure that the expense is for University business as outlined in University policy• Ensure request complies with applicable University and local policies, sponsored requirements and tax rules. If there are any questions regarding compliance, the approver must confirm with the appropriate office (e.g., OSP, RCS) before approving the transaction• Ensure the proper GL coding string is used• Ensure documentation is sent to approver with enough time for approver review and Central processing• Officially sign off on request on behalf of the University | <ul style="list-style-type: none">• Process received transaction requests timely• Check documentation for compliance with University policy• Contact approver with any questions about support or business purpose |

What Other Resources Are Available?

- **Tub finance offices**
- **Accounts Payable: 5-8500**
- **Non-Resident Alien Tax Group: 5-8500**
- **Performers Tax:** <http://oc.finance.harvard.edu/pages/tax-services/massachusetts-withholding-visiting-lecturers-performers-and-others-receiving>
- **Guidelines for Qualified vs. Non-Qualified Moving Expenses:** <http://oc.finance.harvard.edu/how-to/tax-services/moving-recruiting-and-related-expenses>
- **HU Gifts and Celebratory Events Policy:** <http://policies.fad.harvard.edu/pages/employee-gifts-and-celebratory-events>
- **IRS Publications**
 - Accountable Plan Rules: http://www.irs.gov/publications/p463/ch06.html#en_US_2011_publink100034114
 - IRS Pub 15-A, Employer's Supplemental Tax Guide: <http://www.irs.gov/pub/irs-pdf/p15a.pdf>
 - IRS Pub 463, Travel, Entertainment, Gift, and Car Expenses: <http://www.irs.gov/pub/irs-pdf/p463.pdf>
 - IRS Pub 515, Withholding of Tax on Nonresident Aliens and Foreign Entities: <http://www.irs.gov/pub/irs-pdf/p515.pdf>
 - IRS Pub 519, U.S. Tax Guide for Aliens: <http://www.irs.gov/pub/irs-pdf/p519.pdf>
 - IRS Pub 521, Moving Expenses: <http://www.irs.gov/pub/irs-pdf/p521.pdf>
 - IRS Pub 970, Tax Benefits for Education: <http://www.irs.gov/pub/irs-pdf/p970.pdf>

**Appendix A:
Most Common Types of Payments to EMPLOYEES**

Version date: 1/1/2015

| PAYMENT INFORMATION | | | | U.S. TAX RESIDENTS | | | NON-RESIDENT ALIENS | | |
|---|---|---|-------------------------------------|---|--|---|---|--|---|
| Type of payment | Payment definition | System/payment mechanism | Payment/reimbursement processed by? | Taxable to U.S. tax residents? | Tax reporting document issued to U.S. tax resident | Is withholding required? If so, at what rate? | Taxable to aliens? | If taxable, tax reporting document issued | If taxable, is withholding required? If so, at what rate? |
| REGULAR SALARIES AND WAGES | Compensation for services rendered as an employee | Payroll | Payroll Processors | YES per IRS Pub 15-A | W-2 | YES, based on W-4 | YES | W-2 or 1042-S if tax treaty on file (1) | YES based on W-4, unless tax treaty on file (1) |
| BONUS OR OTHER SUPPLEMENTAL PAY (2) | Special payments other than regular wages and salaries | Payroll | Payroll Processors | YES per IRS Pub 463 | W-2 | YES, at supplemental rate | YES per IRS Pub 515 | W-2 or 1042-S if tax treaty on file (1) | YES at supplemental rate, unless tax treaty on file (3) |
| EMPLOYEE REIMBURSEMENT | Payment to a employee who has paid for bona fide University business expenses out of pocket | Oracle/ Reimbursements, Web Voucher Reimbursement | RCS/AP Processors | NO per IRS Pub 463 | N/A | N/A | NO per Accountable Plan Rule | N/A | N/A |
| QUALIFIED MOVING AND RELOCATION EXPENSES (4) | Payments made to an incoming employee to support his/her relocation | Payroll | Payroll Processors | NO per IRS Pub 521 | N/A | N/A | NO per IRS Pub 521 | N/A | N/A |
| NON-QUALIFIED MOVING AND RELOCATION EXPENSES (4) | Payments made to an incoming employee to support his/her relocation | Payroll | Payroll Processors | YES per IRS Pub 463 | W-2 | YES, at supplemental rate | YES per IRS Pub 515 | 1042-S | YES at supplemental rate, unless tax treaty on file (3) |
| GIFT | Tangible personal property awarded out of gratitude | Payroll Add Pay | Payroll Processors | YES if > \$75 (for longer service employees, if > \$400) per HU Gift Policy (5) | W-2 as additional compensation | YES, at supplemental rate | YES if > \$75 (for longer service employees, if > \$400) per HU Gift Policy (5) | W-2 as additional compensation, 1042-S if tax treaty is on file (3) | YES at supplemental rate, unless tax treaty on file (3) |
| HONORARIA (Service Performed Is Related to Employment) | A cash gift for services rendered where not set value is assigned | Payroll Add Pay | Payroll Processors | YES per IRS Pub 15-A | W-2 as additional compensation | YES, at supplemental rate | YES per IRS Pub 515 | W-2 as additional compensation, 1042-S Form if tax treaty is on file (3) | YES at supplemental rate, unless tax treaty on file (3) |
| REFUND | Repayment from the University (i.e. for cancellation of a program or an overpayment to UHS) | AP (HCOM) | AP | NO | N/A | N/A | NO | N/A | N/A |
| ROYALTY INCOME | Payment for use of intellectual property | AP (HCOM) | AP | YES per IRS Pub 15-A | 1099 MISC box 2 royalty income | NO | YES per IRS Pub 515 | 1042-S, income code 12 | YES, at 30% unless tax treaty is on file |
| HOUSING ALLOWANCES/ MORTGAGE SUBSIDIES | Cash payment to employee to subsidize housing/mortgage costs | Payroll Add Pay | Payroll Processors | YES per IRS Pub 15-A | W-2 as additional compensation | YES, at supplemental rate | YES per IRS Pub 515 | W-2 as additional compensation, 1042-S if tax treaty is on file (3) | YES at supplemental rate, unless tax treaty on file (3) |

(1) If a non-resident alien has a tax treaty on file with the Nonresident Alien Tax group, the withholding rate is 0% and the employee will receive a Form 1042-S. If no tax treaty is on file, the withholding is based on the employee's Form W-4 elections and the employee will receive a W-2. Call NRA Tax Customer Service at 5-8500, Option 5, for more information.

(2) Typically, employees should not receive 1099 payments, except in the rare circumstance where the employee provides services that are significantly unrelated to his or her regular Harvard job.

(3) Same as Note 1 above, except that if no tax treaty is in place, the withholding on these payment types is at the supplemental rate.

(4) [See guidelines for qualified vs. nonqualified moving expenses](#)

(5) [See HU Gifts and Celebratory Events Policy](#)

Appendix B:
Most Common Types of Payments to NON-EMPLOYEES

Version date: 1/1/2015

| PAYMENT INFORMATION | | | | | | US TAX RESIDENTS | | | NON-RESIDENT ALIENS | | |
|--|---|---|---|-------------------------------|--|--------------------------------|--|---|---------------------|---|--|
| Type of payment | Payment definition | System/payment mechanism | Payee (relationship to the university) | Processed by? | Common object codes used | Taxable to U.S. tax residents? | If taxable, tax reporting document issued | If taxable, is withholding required? If so, at what rate? | Taxable to aliens? | If taxable, tax reporting document issued | If taxable, is withholding required? If so, at what rate? |
| QUALIFIED SCHOLARSHIP (also called "grant", "award", "stipend", "scholarship") often applied directly to student bill | Required tuition and fees associated with a degree program | SFS via SIS feed, payment applied directly to bill | Students (Must be registered in a degree program) | SRO | 6410, 6430 | NO per IRS Pub 970 | N/A | N/A | NO per IRS Pub 519 | N/A | N/A |
| NON-QUALIFIED SCHOLARSHIP/FELLOWSHIP (also called "grant", "award", "stipend" and can be paid either via Payroll or AP) | Payment for expenses other than required tuition and fees (e.g., living expenses, travel) | Payroll/ Add Pay SFS via SIS feed to Payroll or AP (HCOM) | Student (MST), Monthly Teaching Fellow (MTF), External Post Doctoral Fellow (MEP) | Payroll Processors/ SRO or AP | 6120, 6140, 6440, 6450-6455, or 6460 | YES per IRS Pub 970 | None - individuals need to self-report (1) | NO | YES per IRS Pub 519 | 1042-S, income code 15 | YES, 14% for an F, J, M or Q visa holder, 30% for B-1 visa holders, lower if a tax treaty is on file (2) |
| PRIZES | A payment for a task well done (e.g., writing the best thesis, etc.) | AP (HCOM) | Non-Employees | AP | 6462 for students; 8693 for non-students | YES per IRS Pub 970 | 1099 MISC, Box 3 other income | NO | YES per IRS Pub 515 | 1042-S, income code 16 | YES, 30% (no tax treaty applies) |
| HONORARIA | A cash gift for services rendered where no set value is assigned. | AP (HCOM) | Non-Employees | AP | 8690 or 8692 | YES per IRS 1099 Instructions | 1099 MISC, Box 7 non-employee income | YES IF: CY amounts >= \$5K, 5.25% MA Performers Tax (3) | YES per IRS Pub 515 | 1042-S, income code 16 | YES, 30% FED (no tax treaty applies) plus 5.25% MA Performers Tax if CY payments >= \$5K (3) |
| ROYALTIES | Payment for use of intellectual property (writing, inventions, etc.) | AP (HCOM) | Non-Employees | AP | 8570 | YES per IRS Pub 15-A | 1099 Misc, Box 2 royalty income | NO | YES | 1042-S, income code 12 | YES, 30% (lower if tax treaty applies) |
| REFUNDS | Repayment from the University (i.e. for cancellation of a program or an overpayment to UHS) | AP (HCOM) | Employee | AP | Varied | NO | N/A | N/A | NO | N/A | N/A |
| SERVICE PAYMENTS (includes expenses) | Payment for services rendered as a non-employee | AP (HCOM) | Non-Employees (independent contractors or non-employee fellows) | AP | Varied depending on activity | YES per IRS Pub 15-A | 1099 MISC, Box 7 non-employee income | YES IF: CY speaking/performance fees >= \$5K, 5.25% MA Performers Tax (3) | YES per IRS Pub 515 | 1042-S, income code 16 | YES, 30% FED (no tax treaty applies) plus 5.25% MA Performers Tax if CY payments >= \$5K (3) |
| NONTAXABLE REIMBURSEMENTS (Business Expenses Associated with an Invited Guest/Required Course for Degree Student/Reimbursement of Employee/Student Recruitment Expenses/Other non-employee expenses)(2) | Payment to a non-employee who has paid for bona fide University business expenses out of pocket | Oracle Non-employee Reimbursement (NR) | No current relationship to the university (includes prospective employees and students) | AP | Varied depending on activity | NO per IRS Pub 463 | N/A | N/A | NO per IRS Pub 515 | N/A | N/A |

1. While nonqualified scholarships and fellowships are gross income to recipients who are U.S. tax residents, the IRS does not require Harvard to report on these payments. This means that Harvard sends no documentation on these payments to either the IRS or to the recipient. Recipients are advised to retain their award letters or pay stubs to substantiate the amount of money received for tax purposes.
2. Tax treaties that can reduce withholding burden may apply for residents of certain countries. For more information, see contact list at: [Nonresident Alien Tax](#)
3. If Harvard pays a performer over \$5,000 during a calendar year, 5.25% Massachusetts Performers Tax must be withheld from the payment. See more information at: [the Office of the Controller website.](#)

Appendix C: Glossary

| Term | Definition |
|-----------------------------|--|
| Accountable Plan | The IRS rules that govern how employers can repay individuals without tax consequences for business expenses the individual incurs on the Harvard's behalf. |
| Agency Funds | Funds awarded to an individual, not to Harvard, by an outside grantor. Harvard may administer these funds although it does not own or control them. Agency fund flags are visible as a descriptive flex field in Harvard's General Ledger and in GMAS. |
| Fellowships | A payment or allowance made to an individual to aid that individual in the pursuit of his or her own study or research. A fellowship payment is not related to the performance of services for the University. A fellowship can be qualified, meaning it does not constitute income to the recipient, if it is for required tuition or fees for a degree program. A non-qualified fellowship is a payment for purposes other than required tuition or fees for a degree program, and constitutes income to the recipient |
| PeopleSoft Pay Group | A three-letter code in the PeopleSoft payroll system that classifies individuals for payroll processing purposes |
| Prize | A payment made to an individual in recognition of a past achievement |
| Qualified Fellowship | Fellowships for required tuition and fees for a degree program, which do not constitute income to the recipient. This can include payment for travel expenses, if the travel is required as part of a course. It is easiest to pay qualified fellowships by applying directly to the student's term bill – especially for non-resident aliens. |
| Reimbursement | A nontaxable payment that Harvard makes to repay an individual for bona fide University business expenses that the individual has already incurred. If an individual incurs expenses that do not meet Harvard's reimbursement guidelines, any payment of those expenses must be treated as taxable additional pay to the recipient. |
| Scholarship | A type of fellowship that is qualified, meaning non-taxable to the recipient, when it is for <u>required tuition and fees for a degree program</u> . |
| Service Payment | Cash or other value transferred to a non-employee as remuneration for services provided to the University. |