

HARVARD  
FINANCIAL ADMINISTRATION



# Fellowships vs. Business Expense Reimbursements Policy

Financial Policy Office  
Office of the Controller  
April 26, 2017

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# Financial Policy Website: [policies.fad.harvard.edu](https://policies.fad.harvard.edu)



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## Financial Policy Office

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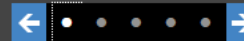


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### Fellowships vs. Reimbursements

Guidance for payments to students and non-employee fellows



#### WHAT'S NEW

[Updated: Honoraria and Reimbursements for Foreign Nationals](#)

[Training Resource: Fellowships Toolkit](#)

[Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows](#)

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#### UPCOMING POLICY EVENTS



#### EVENT FULL - Fellowships vs. Reimbursements Policy Information Session

9:30am to 11:00am

**Location:** HMS, Gordon Hall, Waterhouse Room - Faculty Room

Join us for an overview of the new Fellowships vs. Reimbursements Policy, including an overview of tax issues, plus Q&A with a panel of experts from Tax Reporting, the Office for Sponsored Programs, and Strategic Procurement.

Please email [financialpolicy@harvard.edu](mailto:financialpolicy@harvard.edu) to register.

# What Does “Taxable” Mean?

“Taxable” can mean a few different things. Before discussing fellowships, a few basic tax concepts:

- **Gross income:** required to be reported on a personal tax return. 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.
- **Reportable:** required to be reported to the IRS and the individual
- **Withholdings:** taxes taken out of a payment up front
- **Business expense reimbursement:** repayment for a University expense that a person paid for out of pocket – not included in gross income

# Policy Overview

- Guidance on when to treat expenses of students and non-employee postdocs as

## Business expense reimbursements

(which are NOT included in gross income)

*...and when to treat them as*

## Fellowship payments

(which ARE included in gross income...unless a specific exclusion applies)

- We've interpreted the IRS guidance in the policy and applied it to some common situations at Harvard
- Determinations around fellowships are fact-specific and often require judgment. We can't eliminate all of the confusion surrounding fellowships, but we hope to reduce it.
- *Note: policy assumes that postdocs have been classified correctly (as employees or non-employees)*

# Student/Fellow Payments That Are Gross Income: Fellowships

Anytime Harvard pays or allows expenses to a student or postdoc, it could be considered a fellowship payment.

*A fellowship is an amount paid or allowed on behalf of an individual to aid that individual in his or her personal scholarship.*

Characteristics of fellowships:

- Payment is made for activities in which the University is relatively disinterested or the research is student-led; or
- The project/research's primary purpose and original intent is to further the student's education or training, rather than advance University research or scholarship; or
- The University obtains little or no benefit; or
- Activities are performed primarily to contribute to the development of the skills needed in the student's studies.

**Note: payments to support an individual's living or other personal expenses (e.g., rent, health insurance) are always gross income to that individual.**

# **Student/Fellow Payments That Are NOT Gross Income**

**Some payments to students/ fellows can be excluded from gross income if they meet certain exclusions. The most common ones we will see at Harvard are:**

- 1. Qualified Fellowships and Pass Through Course Costs**
- 2. University Business Expenses**

# Student/Fellow Payments That Are NOT Gross Income:

## 1 - 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 or other expenses can also be qualified, meaning non-taxable to the recipient, if:
  - The travel or other expense 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.
- 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 an actual course; costs related to a requirement of a program unconnected to a specific course MUST be treated as fellowship payments**

# Student/Fellow Payments That Are NOT Gross Income:

## 2 - University Business Expenses

Expenses may be reimbursed as University business expenses if a faculty member or another authorized Harvard employee determines that the expense is in direct support of 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 research 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 the results or the research will be used by the University; 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.

**Note: In these cases, the payments are NOT for living or personal expenses of the individual; rather the payments are for University business expenses.**



# Criteria for University Business Expenses

**QUESTION:** So...if my department does physics, does ANY research that has ANYTHING to do with physics qualify as “direct support”?

**ANSWER:** No, there has to be factual connection between the research/scholarship of the department and the student/fellow’s research that makes sense to a reasonable person. Imagine that the recipient is being audited by the IRS and you have to explain to an agent how the research is related.

# Specific Guidance for Conferences

Conference expenses are in direct support of University research or scholarship when the purpose is:

- Speaking/presenting a paper, poster, or serving on a panel on Harvard's behalf; or
- Attending a conference, field site, or off-campus laboratory to gain information directly related to University research or scholarship which will be relayed to others within the University



# Prizes

- A **prize** is a payment predicated on past accomplishment (like writing a winning essay, earning the highest grade, etc.)
- Prized have special tax treatment – treated as service income
- MUST be charged to object code 6462, “Prizes, Students, General” or 8693, “Prizes to Nonempl, Nonstud”
- Amounts charged to this object code will generate a Form 1099 to US tax residents if amounts => \$600 in a calendar year, and will be reportable for nonresident aliens

# Reporting Requirements

Fellowship		Prize	
US Tax Residents	Non-Resident Aliens	US Tax Residents	Non-Resident Aliens
<ul style="list-style-type: none"> <li>Harvard is not required to report payments to the IRS or to the recipient</li> <li>No withholding is required</li> <li>Recipient must <b>self-report</b> as gross income</li> </ul>	<ul style="list-style-type: none"> <li>Harvard is required to report payments to the IRS and to the recipient on Form 1042-S</li> <li>Withholding is required (usually at 14% or 30%) but can be reduced by tax treaties if available</li> </ul>	<ul style="list-style-type: none"> <li>Harvard must report to the IRS and issue prize recipients a Form 1099 if the prize amount is \$600 or more</li> <li>1099MISC Box 3</li> </ul>	<ul style="list-style-type: none"> <li>Harvard is required to report payments to the IRS and to the recipient on Form 1042-S</li> <li>Withholding is required (usually at 14% or 30%) but can be reduced by tax treaties if available</li> </ul>

**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. The Harvard International Office offers international students access to Windstar; a software program to assist certain foreign nationals in determining tax status and will prepare appropriate tax forms. See: <http://www.hio.harvard.edu/tax-filing-information>



# Pop Quiz!

Q: Jackson is a sophomore in the degree program in dentistry. This year, in addition to tuition, he is required to pay a fee to the university for the rental of the dental equipment he will use in the program.

A: Because the equipment rental fee must be paid to the school for enrollment and attendance, Jackson's equipment rental fee is a qualified education expense.

Q: Laila receives external funding to support her tuition and fees with funds left over for living expenses.

A: The amount that supports tuition and fees is qualified while the amount paid towards living expenses is nonqualified.

Q: Kas received a training grant from the National Institutes of Health that will cover health insurance.

A: Insurance is always considered a nonqualified expense.

Q: 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.

A: This is a Harvard business expense reimbursement and considered qualified/nontaxable.

Q: Individual doing her own research at Harvard is given a travel allowance to conduct fieldwork related to her research.

A: Nonqualified Fellowship. This is a travel grant to the individual.

# Common Payments to Students and Nonstudents

Type	Definition	PR or NR?	Taxable?
Prize or Award	A gift for a task well done or a past accomplishment, i.e., writing the best essay, earnings the highest GPA	HCOM - PR	Yes
Nonqualified Fellowship (Stipend)	A payment to aid in an individual's pursuit of study or research. A fellowship may take the form of a travel award or allowance. This is not related to performance of services on behalf of Harvard.	HCOM – PR PeopleSoft	Yes
Qualified Fellowship (Scholarship for Tuition and Required Fees)	Payment for required tuition and fees for a degree program.	SIS Feed – Term Bill	No
Course Expenses	Some travel or other course expenses are nontaxable if: <ul style="list-style-type: none"> <li>• <u>The travel or other expense is required as part of a course</u> (see below); and</li> <li>• The recipient is a <u>registered degree candidate</u>; and</li> <li>• The expenses are necessary in delivering the course and budgeted as part of the course cost.</li> </ul>	HCOM – NR	No
Harvard Business Expense	Expenses may be reimbursed as University business expenses if a faculty member or another authorized Harvard employee determines that the expense is in <u>direct support</u> of University research or scholarship	HCOM - NR	No
Employment or Work or Service or Researcher	Student must perform an action or complete a deliverable in order to be paid.	PeopleSoft HCOM – PR	Yes

- Payments to support an individual's living or other personal expenses (e.g., rent, health insurance) are always taxable.
- Course costs must be related to a requirement of an actual course; costs related to a requirement of a program unconnected to a specific course **MUST** be treated as fellowship payments.

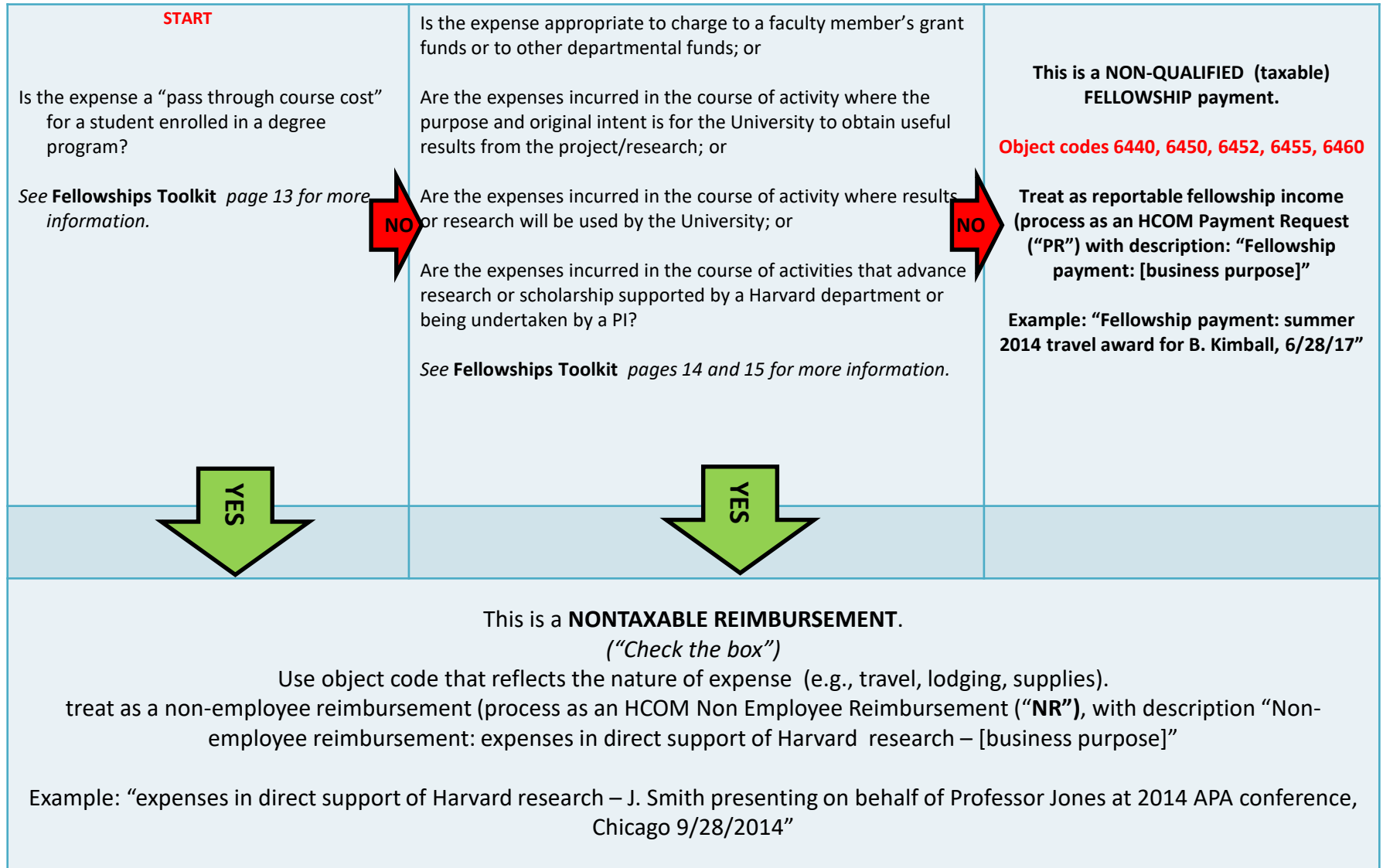
# Decision Tree

## Common Payments to Students and Nonemployees

<p><b>START</b></p> <p>Is this payment for required tuition and fees for a degree program? (See page 13 for more information)</p> <p><b>NO</b></p>	<p>Is this payment based on a past accomplishment (e.g., earning the highest GPA, delivering best presentation, etc.)? (See Fellowships Toolkit page 16 for more information)</p> <p><b>NO</b></p>	<p>Does/did this payment require the recipient to perform services for Harvard (e.g., teaching, speaking)?</p> <p><b>NO</b></p>	<p>Is this payment for personal research/ personal scholarship or living support (room and board, etc.)? (See Fellowships Toolkit page 14 for more information)</p> <p><b>NO</b></p>	<p>Is this payment to reimburse travel or other expenses?</p> <p><b>NO</b></p>	<p><i>You need more information. Please call your tub finance office for assistance.</i></p>
<p><b>YES</b></p>	<p><b>YES</b></p>	<p><b>YES</b></p>	<p><b>YES</b></p>	<p><b>YES</b></p>	
<p>This payment is a <b>QUALIFIED</b> (nontaxable) <b>SCHOLARSHIP/ FELLOWSHIP</b>. Object codes 6410, 6430 For NRAs, apply directly to term bill if possible</p>	<p>This payment is a <b>PRIZE</b> (reportable/taxable) 1099 if <math>\geq</math>\$600 Use <b>NEW</b> object code 6462 for Students, 8693 for External Post-docs</p>	<p>This is a (reportable) <b>SERVICE PAYMENT*</b> 1099 if <math>\geq</math>\$600. Use object code that reflects nature of expense (e.g., tech consulting).</p>	<p>This is a <b>NON-QUALIFIED</b> (taxable) <b>SCHOLARSHIP/ FELLOWSHIP</b> payment. <b>Object codes 6440, 6450, 6452, 6455, 6460</b></p>	<p>See <b>NEXT PAGE</b> - "Expense Reimbursements for Students and Nonemployee Postdocs/Fellows" for more information.</p>	

\* 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 Nonemployees



**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.**



# Guidance for Processing Payments

- For business expense payments to individuals who are nonresident aliens and who have not and will not be paid a service payment (honoraria), you may reduce the Glacier requirements by setting them up using the Business Expense Reimbursement (BER) vendor type.
- Rather than using the Non-Standard Check Processing/Check Pick-up Form, if you have the time, you may want to use the Deposit/Prepayment/Enclose and Special Mailing Form. The special mailing is processed with 1-2 business days (foreign nationals may take longer) and sent to departments via interdepartmental mail. Mail testing averaged 1-2 business days.
- Use the in lieu of invoice form for these types of payments, checking the correct box.

# Review of Business Expense Reimbursements (BER) Vendor Type Guidelines

- This vendor type is for business expense payments ONLY.
- Active foreign vendors, showing under the “BER- Foreign Individual” vendor type, can be paid multiple business expense reimbursements during their 90-day active period
- Once inactive, a “BER- Foreign Individual” vendor can be reactivated for additional business expense reimbursements without a GLACIER submission. Collecting immigration documents and certification forms is still necessary for each payment
- If you need to make an income payment to a foreign individual that is already set up as a “BER-Foreign Individual,” the payee MUST complete GLACIER, and wait until the Vendor type has been updated to a 1042S vendor. Requests received for income payments to a BER-Foreign individual will be returned to the preparer.

Enclosure  
 Special Mailing  
 Deposit/Partial Payment

PR 123456789  
OR  
PO

Please use this form to request a deposit or other payment type for an event, equipment, or invoice. This service accommodates situations where an accelerated, one-time payment needs to occur. It is also to be used to request an enclosure with a payment or a special mailing (e.g. including addressed FedEx envelope). If it is a deposit with an enclosure please check both boxes. Place this form on top of all included documents.

REQUEST DATE: 5/1/17  
AMOUNT OF PAYMENT: \$250.00  
PREPARED BY: Jane Harvard (FIRST AND LAST NAME)  
PHONE #: 5-1111 TUB #: 123

FOR SPECIAL MAILING CHOOSE TYPE  
 FEDEX  VENDOR  DEPARTMENT/INTER-OFFICE MAIL (ADD ADDRESS BELOW)  
John Harvard, School of Rock, 1 Massachusetts Hall, Room A

GUIDELINES FOR COMPLETING THIS FORM

1. Place this form on top of all included documents.
2. Please attach any documentation needed to process payment such as: an invoice, contract (for deposits only), or agreement. For Enclosure, please be sure to attach all necessary documentation, to be sent with a check. For FedEx, attach envelope with address label.
3. Clearly indicate the amount to be paid in the space provided above (especially if this is a partial payment.)
4. You must enter the PR or PO number in the upper right corner of this form. Forms with Requisition numbers will be returned to the preparer.
5. Send this completed form to Accounts Payable: 1033 Massachusetts Avenue 2<sup>nd</sup> Floor, Cambridge, MA, 02138
6. This form gets priority processing when it is received by AP.
7. Do NOT attempt to edit this form. This form must be submitted in its original format.
8. This form cannot be used for check pickup.
9. One form per invoice.
10. Detailed instructions can be found at <http://oc.finance.harvard.edu/deposit-pre-payment-enclosure-and-special-mailing-form>

Revision Date: July 6, 2016 For questions please contact [ap\\_customerservice@harvard.edu](mailto:ap_customerservice@harvard.edu) or call 5-8500

In Lieu of Invoice

PR 123456789

Please use this form to request payment in situations where it is not possible or appropriate for the vendor or individual to provide an invoice, e.g.: refunds, honoraria, prizes, or fellowship payments. All fields are required.

INVOICE NUMBER\*: JOHNHANCOCK01MAY17 (25 CHARACTER LIMIT)  
INVOICE DATE: 5/1/17 (STANDARD PAYMENT TERMS APPLY)  
AMOUNT OF PAYMENT: 250.00  
NAME OF INDIVIDUAL/VENDOR: John Hancock  
REASON FOR PAYMENT:  
 REFUND  HONORARIUM  PRIZE/AWARD  ROYALTY  
 FELLOWSHIP/GRANT  DONATION  OTHER

IF 1042S VENDOR, SERVICE IS DONE:  INSIDE the US  
 OUTSIDE of the US (Location: )

BUSINESS DESCRIPTION: Boston Tea Party Commencement Prize for most innovative use of tea and water.

PREPARED BY: John Harvard (FIRST AND LAST NAME) PHONE #: 5-1111

GUIDELINES FOR COMPLETING THIS FORM

1. This form should be used in lieu of an invoice for specific situations where one cannot be provided.
2. Create a Payment Request in HCOM for the Vendor, and entered the PR number in the upper right corner of this form.
3. \*Invoice Number: The preferred standard is VENDORNAME00MON00, for example JOHNHARVARD03APR16 for a payment made to John Harvard on April 03, 2016. (Special note: AP uses the invoice number to prevent duplicate payments. Please make sure a request is not submitted twice with different invoice numbers, or a duplicate payment may occur in error.)
4. Reason for Payment: a box must be checked for the form to be processed. If "Other", please provide detail.
5. If a 1042S vendor/individual; a box must be checked and the location provided if service is outside the US.
6. Business Description: Provide detailed information regarding the transaction
7. Send this completed form to Accounts Payable: 1033 Massachusetts Ave 2<sup>nd</sup> Floor, Cambridge, MA, 02138
8. Payment will be made according to the vendor's terms.
9. Do NOT edit this form. This form must be submitted in its original format.
10. Detailed instructions can be found on the AP website by clicking here.

Revision Date: June 30, 2016 For questions please contact [ap\\_customerservice@harvard.edu](mailto:ap_customerservice@harvard.edu) or call 5-8500

# Additional Materials

- [Employee and Nonemployee Gifts and Celebratory Events](#)
- [Fellowship Payments and Reimbursements for Students and non-employee Postdocs/Fellows](#)
- [Fellowships Toolkit](#)
- [IRS Publication 970, Tax Benefits for Education](#)
- [OSP Stipends on Sponsored Awards](#)
- [OSP Stipends on Sponsored Awards](#)
- [Processing Taxable Payments](#)
- [Travel Policy](#)

# Object Codes Harvard Students

6410	Undergraduate Tuition, Fee+Stipend Grants, GENERAL	Scholarships and awards to cover the costs of tuition and fees and living expenses for undergraduate students. All payments are credited to term bill, not paid to students.
6430	Grad Tuition+Fee Grants	Scholarships and awards to cover the costs of tuition and fees for graduate students. All payments are credited to term bill, not paid to students.
6460	Other Grants+Amounts Paid to Students	Formerly "Prizes+Awards, Student, GENERAL" As of 1/1//2015, this object code can be used for non-service payments to students not intended to cover either tuition or living expenses; may include research and travel grants to students. Note that use of this object code for any amount will generate a Form 1042-S for nonresident aliens. For prizes based on past accomplishment (that will generate a Form 1099 if > \$600 in a calendar year to US tax residents), use object code 6462.
6461	Other Undergraduate Grants^Prizes+Awards, Students	Payments for undergraduate students for study abroad, summer research, and public service programs. Amounts are paid directly to students, or on behalf of students, and do not represent payment for services, which must be processed through a payroll object code.
6462	Prizes, Students GENERAL	As of 1/1/2015, this object code should only be used for prizes BASED ON PAST ACCOMPLISHMENT paid to students; will generate a Form 1099 to US tax residents if amounts > \$600 in calendar year. Note that use of this object code for any amount will generate a Form 1042-S for nonresident aliens.

# Object Codes Nonstudents

6431	Training Grant payments, Non-Harvard Grad Tuition+Fees	This object code is used to pay tuition and related fees to institutions other than Harvard (e.g. MIT, UMass, affiliated hospitals). Generally, this is used to pay these costs for trainees on DHHS training grants awarded to Harvard. These expenses do not take overhead. This object code should never used to pay Harvard tuition and fees.
6455	Not Harvard Students, Other Grants+Awards (Non-payroll), GENERAL	This includes non-payroll payments to persons for travel and research grants where the individual is not a Harvard student and is not required to be paid under object code 6450 (payroll Fellowships). Generally payments are for activity related to the research or teaching mission of the University and are made as a lump sum. As an example, if an undergraduate student from another University were invited to study here for the summer and paid a travel grant, the travel grant would be charged here.
8690	Lect Perf Automated MA WH - honoraria/svc pmt/fees to visting lect/perf	Lecture fees, honoraria and other service payments to nonemployees, whether individuals or entities, for lectures before audiences or classes or provision of services connected with a performance, should be charged here EXCEPT for those payments that should be charged to 8692. Massachusetts tax withholding on this object code is fully automated and will begin when aggregate payments by the University to a particular vendor to object codes 8690 and 8692 during the calendar year exceed \$5,000. (See object code 8692 comment for information on exceptions to automatic tax withholding.)
8692	Lect Perf Exception MA WH - honoraria/fees to visting lect/perf (pmt holds)	Lecture fees, honoraria and other service payments to nonemployees, whether individuals or entities, for lectures before audiences or classes or provision of services connected with a performance, should be charged here when one of the following exceptions to MA withholding is sought: (i) aggregate payments for all personal services provided in connection with an event are AT MOST \$10,000 or (ii) event is held OUTSIDE OF MASSACHUSETTS regardless of event payment total. In addition, departments may choose to charge payments here when a lecturer or performer has applied to the Massachusetts DOR to waive or reduce withholding. Payments charged to this object code will be placed on hold until A/P receives documentation supporting the relevant exception, in accordance with relevant A/P processes. For waiver or reduction of withholding, the payment hold will be released only after DOR approval is received by the University. To avoid unnecessary Massachusetts tax withholding, departments should comply with relevant A/P processes.
8693	Prizes to Nonempl, Nonstud	Formerly "Prizes+Awards to Nonempl, Nonstud" - this object code should only be used for prizes based on past accomplishment paid to non-employees and nonstudents; will generate a Form 1099 to US tax residents if amounts > \$600 in calendar year. Note that use of this object code for any amount will generate a Form 1042-S for nonresident aliens.