

HARVARD  
FINANCIAL ADMINISTRATION



***Prize, Grant, Award or Fellowship  
Policy Review Session***

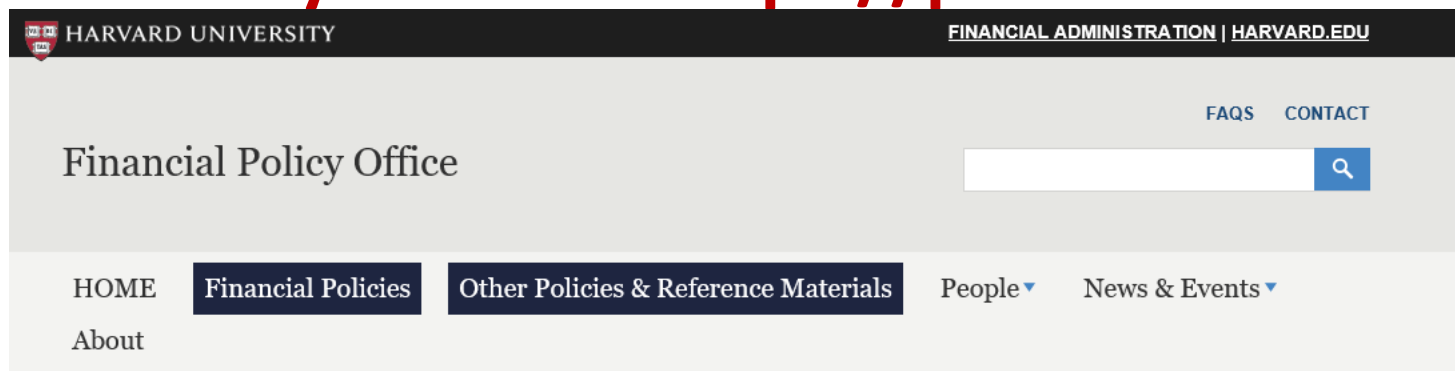
Office of the Controller

Karen Kittredge, OC, Manager Policy and Business Process

Natasha Rivera, OC, Nonresident Alien Compliance Manager



# Financial Policy Website: <https://policies.fad.harvard.edu/>



The screenshot shows the top navigation bar of the Harvard University Financial Policy Office website. On the left, it features the Harvard University logo and the text "HARVARD UNIVERSITY". On the right, it says "FINANCIAL ADMINISTRATION | HARVARD.EDU". Below this, there are links for "FAQS" and "CONTACT". The main heading "Financial Policy Office" is centered, with a search bar to its right. A navigation menu below the heading includes "HOME", "Financial Policies" (highlighted), "Other Policies & Reference Materials", "People", and "News & Events".

## POLICY QUICKVIEW

**Responsible Office:**  
Financial Policy Office

Date Effective: 1/1/2015  
Date Revised: N/A



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## APPENDICES

[Appendix A: Decision Tree - Common Payments to Students and Non-employee Postdocs/Fellows](#)  
[Appendix B: Sample Student/Non-employee Postdoc Expense Certification Template](#)

## RELATED RESOURCES

[HOME / FINANCIAL POLICIES /](#)

## Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows

### **Policy Statement**

Per the IRS, a fellowship is an amount paid to or allowed for the benefit of an individual to aid in the pursuit of that individual's own study or research. At Harvard, we use the term "fellowships" to refer to a host of payments: awards, stipends, grants, and allowances. Fellowships are generally gross income to the recipient, unless they are qualified payments for required tuition and fees for a degree program.

Generally, student and non-employee postdoc/fellow travel or other expenses are assumed to be fellowship payments. However, when students and non-employee postdocs/fellows incur expenses in direct support of University research or scholarship as described in this policy, they may be reimbursed for business travel and other expenses. This policy is intended to clarify when payments to fellows should be treated as gross income, as qualified payments for tuition or fees for a degree program, or as reimbursements for bona fide University business expenses that the individual incurred on Harvard's behalf.

Additionally, all payments made from sponsored awards, including fellowship awards or training grants, must comply with the terms and conditions of the award agreement.



# Agenda

- Processing Fellowships or Prizes Workflow
- Definitions
  - Prizes, fellowships and Harvard business expenses
  - How are prizes different from fellowships?
  - How are fellowships different from Harvard business expenses?
- Reporting and Tax Withholding Requirements
- Processing Payments to Nonstudents
- Processing Payments to Harvard Students
- Pop Quiz!



# Processing Fellowships or Prizes

## Who are you paying?

Harvard Student  
Employee  
Nonemployee

## What type of payment are you making?

Fellowship/Grant/Allowance  
Prize/Award  
Business Expense Reimbursement  
Scholarship  
Compensation for a Service

## What is the Location of the activity relating to the payment?

U.S. or Foreign  
Sourced



### Who is Harvard paying?

- Is the individual a U.S. Citizen/Permanent Resident or a Foreign Individual?
- For foreign individuals:
  - Is this payment allowable to be paid by Harvard under their approved visa status?
  - What is their U.S tax status (Resident Alien or Nonresident Alien)?
- Does this individual have a PeopleSoft appointment? The appointment type may help in classifying the type of payment.

### What is the type of payment (e.g. fellowship, prize, or Harvard business expense)?

- The type of payment is important to determine if the payment is reportable or taxable by Harvard.
- Some payments are exempt from withholding, which can be based on an Internal Revenue Code (“IRC”), tax status of the individual, or an applicable tax treaty that has been claimed.

### Where is the payment being used (inside U.S. or outside U.S.)?

- Location of the activity drives the foreign source determination
- Is the individual entering the U.S.?



# Definition of Prize and Fellowship

At Harvard we use a number of descriptions when classifying payments to individuals. Classifications must be based on the facts and circumstances of payment. What a department calls the payment does not determine tax classification. **An individual's or department's preference from a tax and budget perspective cannot influence the classification determination.**

## Prize/Award

An amount awarded in recognition of a past accomplishment or achievement. Gift for a task well-done. Prizes are often given during commencement.

Examples:

- ❖ Earning the Highest GPA
- ❖ Winning a business plan competition
- ❖ Writing Prize

**Fellowship/Grant** (may also be called a scholarship, award, allowance, travel grant, research grant, etc.)

Payment or other value (plane ticket or other expenses) to support an individual in pursuit of their professional development, personal learning or scholarship. A fellowship may take the form of a living, travel, or research award or allowance. This is not related to performance of services on behalf of Harvard. Fellowships include but are not limited to payments made to or on behalf of students, nonemployee postdocs, teaching fellows, and visiting scholars.

Examples:

- ❖ A travel grant for individual research
- ❖ An allowance for a postdoc fellow to travel home during their appointment period
- ❖ Payment for medical insurance for an external Postdoc Fellow



# How Are Prizes Different from Fellowship Payments?

- At Harvard, we sometimes use the term “prize” or award to describe money paid to an individual to support their research or travel. 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 MISC3 if the prize amount is \$600 or the recipient receives aggregate of \$600 or more from Harvard in a calendar year.
- **For nonresident aliens**, Harvard **does** need to withhold taxes and report the prize income to the IRS and issue the recipient a Form 1042-S for any dollar amount. As with fellowship payments, this means that the amount of a prize paid to a nonresident alien **may be less** when paid, since taxes are withheld. Tax withholding is 30% for prizes or awards.
- Fellowships, prizes or awards must be processed as a Payment Request (“PR”) in HCOM. Local schools and units may collect receipts if a fellowship is based on actual expenses, however, the receipts are not required for submission of the payment since they are processed as a PR and considered taxable or reportable to the individual.



# Harvard Business Expense Reimbursements

Research expenses may be reimbursed as a qualified (nontaxable) University business expenses if 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, and Harvard is the primary beneficiary of the work (not the individual).**

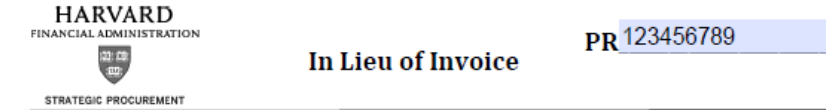
Characteristics of expenses in direct support of University research or scholarship:

- 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 of Forms to Use



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**

- This form should be used in lieu of an invoice for specific situations where one cannot be provided.
- Create a Payment Request in HCOM for the Vendor, and entered the PR number in the upper right corner of this form.
- \*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.)
- Reason for Payment: a box must be checked for the form to be processed. If "Other", please provide detail.
- If a 1042S vendor/individual; a box must be checked and the location provided if service is outside the US.
- Business Description: Provide detailed information regarding the transaction
- Send this completed form to Accounts Payable: 1033 Massachusetts Ave 2nd Floor, Cambridge, MA, 02138
- Payment will be made according to the vendor's terms.
- Do NOT edit this form. This form must be submitted in its original format.
- 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



## Non Employee Reimbursement Form

Request Date: \*

NR Number \*: \*

Reimbursee Name: \* Nathaniel Eaton

Requisition #: \*

Affiliation  Invited Guest  Harvard Student  Other (Explain below) HUID (Affiliates):\*

Other Explanation External PostDoc Fellow

U.S. Citizen or Permanent Resident  Yes  No Federal Sponsored  Yes  No

	Dates of Expense(s)	Business Purpose: Provide detailed reasons and date ranges for expenditures. Travel and entertainment expenses require the person(s) and/or organization and location. ALL expenses must be itemized.
#1	1/1-10/19	Expenses for travel to San Fransisco, CA to present at NSF Climate Change Symposium on behalf of Professor X.
#2		
#3		





# 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"><li>• Who incurred the expense</li><li>• What the expense entailed</li><li>• When the expense was incurred</li><li>• Where the expense was incurred</li><li>• Why this is a Harvard expense<ul style="list-style-type: none"><li>○ Who else was involved if this is a business entertainment expense</li></ul></li></ul>	<ul style="list-style-type: none"><li>• (If Fellowship payment use in Lieu of Form - PR) "Travel allowance for John Smith Research in Rwanda 1/1/2019 – 1/31/2019."</li><li>• (If Harvard business expense use nonemployee reimbursement - NR) "Jane Smith RT airfare BOS-SF CA to present <u>on behalf of Professor X's lab</u> at ABC Conference in Chicago on 1/8/2014."</li></ul>



In Lieu of Invoice

PR

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\*:  (25 CHARACTER LIMIT)

INVOICE DATE:  (STANDARD PAYMENT TERMS APPLY)

AMOUNT OF PAYMENT:

NAME OF INDIVIDUAL/VENDOR:

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:

PREPARED BY:  (FIRST AND LAST NAME) PHONE #:

# In Lieu of Form

Reason for Payment	Best Use Object Code	Description
Refund	Original object code	One-time repayment for a cancellation of a program or an overpayment.
Honorarium	8690 8692 – if MA waiver rcvd.	A cash gift for services rendered where no set value is assigned.
Prize/Award	6462-students 8693-nonstudents	A gift for a task well done, i.e., writing the best essay.
Royalty	4830	Distribution of royalty income received by Harvard to third parties.
Fellowship/Grant	6460-students 6455-nonstudents	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.
Donation	8450 8454	A charitable contribution donation (e.g., in lieu of flowers for sympathy).
Other		



# How are Fellowship Payments Different from Business Expense Reimbursements

Research expenses incurred by a student or nonemployee 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. Nonemployee postdocs/fellows and students are *generally assumed* to be pursuing their own personal research or scholarship while at Harvard. Generally, payment of travel and other expenses of students and postdocs/fellows at Harvard are presumed to be fellowship (nonqualified) payments. **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.



# Sample Template for Business Expense Certification

Appendix B - Sample Template for Student/Non-employee Postdoc Business Expense Certification

Student/Non-employee/Postdoc Name:		
Date of Expense:		
Business Purpose:		
Section I or II to be completed by University Faculty Member or Other Authorized Harvard Employee (check one):		
Section I - Required Course Costs - I certify that this expense may be excluded from income because the recipient is a candidate for a degree, and is:		
a → The expense is for tuition and fees required for enrollment or attendance at an educational institution, or for fees, books, supplies, and equipment required for courses of instruction; or		
b → The payment or reimbursement is by Harvard for Harvard course-related travel expenses or other Harvard course-related expenses, where such expenses are necessary in delivering the Harvard course and are budgeted as part of the course cost. or		
Section II - Business Expense Reimbursements - I certify that this student/non-employee postdoc expense is in direct support of University business because:		
a → The expense is appropriate to charge to a faculty member's grant/funds or to other departmental funds; or		
b → 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		
c → Expenses are incurred in the course of activity where results or research will be used by the University; or		
d → Expenses are incurred in the course of research or other activity performed to fulfill University's obligations to an outside funding entity; or		
e → Expenses are incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI; or		
Certification by University Faculty Member or Other Authorized Harvard Employee:		
Printed Name:		
Signature:		Date:
	Prize, Grant, Fellowship	Brown Bag 10/25/18



# Examples of Business Expense Reimbursements vs Fellowship Payments

## Examples Harvard Business Expense Reimbursements

- a. A graduate student uses a portion of the institutional allowance on their grant on gene sequencing services related to their research. This research is in direct support of their 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 on the direction of a Harvard PI to attend a conference and is expected to gain scholarly information to be shared with Harvard colleagues such as a brown bag setting.

## Examples of Fellowships which are Nonqualified (Taxable)

- a. Student receives funds to attend 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.
- b. 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.
- c. A post doc is allowed to spend a portion of their institutional allowance on health insurance. This is a personal benefit to the post-doc and the expense is treated as a fellowship payment. This includes payments that Harvard may make directly to the insurance company on the post doc's behalf.



# Fellowship vs. Prizes Reporting and Tax Withholding Requirements

Fellowship/ Grants- Support payments (i.e. plane tickets, health insurance, or other travel expenses) paid to or on behalf of an individual to aid in their own personal research or scholarship.		Prize/ Awards- Payments issued in recognition of a past accomplishments or achievements, such as those awarded for earning the highest GPA or winning a business plan competition.	
US Tax Residents	Nonresident Aliens	US Tax Residents	Nonresident Aliens
<ul style="list-style-type: none"> <li>• Harvard is not required to report these payments to the IRS or to the recipient</li> <li>• No withholding is required at time of payment, but tax payments due at filing could be required</li> <li>• Recipient must self-report as gross income for any non-qualified fellowship received</li> </ul>	<ul style="list-style-type: none"> <li>• Harvard is required to report payments to the IRS. The recipient will receive a Form 1042-S indicating “fellowship/ scholarship” for non-qualified payments</li> <li>• Withholding is required (at 14% or 30% depending on visa type) but can be reduced by tax treaties if determined eligible beforehand</li> </ul>	<ul style="list-style-type: none"> <li>• Harvard must report to the IRS and issue prize recipients a Form 1099 if the recipient receives \$600 or more in prize money during a calendar year</li> <li>• 1099 MISC Box 3</li> </ul>	<ul style="list-style-type: none"> <li>• Harvard is required to report these payments to the IRS and to the recipient on Form 1042-S as “other income”</li> <li>• 30% Withholding is required. Not eligible for tax treaty exemption</li> </ul>



# Processing Payments to Nonstudents

Scenario	Payment Type	Description	Object Code	Payment System	US Tax Residents	Nonresident Aliens
Is the payment predicated on a past accomplishment or winning a competition?	Prize or Award	A gift for a task well done or a past accomplishment, i.e., writing the best essay, earnings the highest GPA	8693 - Prizes to Nonempl, Nonstud	AP Payment Request	Harvard must report to the IRS and issue prize recipients a Form 1099 if the prize amount is \$600 or more.  1099MISC Box 3	Harvard is required to report payments to the IRS and to the recipient on Form 1042-S.  30% Withholding is required. Not eligible for tax treaty exemption
Payment to support an individual in pursuit of their professional development, personal learning or scholarship.	Fellowship or Grant	A fellowship may take the form of a living, travel, or research award or allowance. This is not related to performance of services on behalf of Harvard. Fellowships include but are not limited to payments made to or on behalf of students, nonemployee postdocs, teaching fellows, and visiting scholars.	6455-Not Harvard Students, Other Grants+Awards (Non-payroll), GENERAL	AP Payment Request	Harvard is not required to report these payments to the IRS or to the recipient. No withholding is required at time of payment, but tax payments due at filing could be required  Recipient must self-report as gross income for any non-qualified fellowship received	Harvard is required to report payments to the IRS. The recipient will receive a Form 1042-S indicating "fellowship/ scholarship" for non-qualified payments  Withholding is required (at 14% or 30% depending on visa type) but can be reduced by tax treaties if determined eligible beforehand



# Processing Payments to Harvard Students

Scenario	Payment Type	Description	Object Code	Payment System	US Tax Residents	Nonresident Aliens
Is the payment for required tuition and fees for a degree program?	Qualified Fellowship (Scholarship for Tuition and Required Fees)	Payment for required tuition and fees for a degree program.  Required fees include student fees and health insurance fees and any other fees which are required component of enrollment.	6410 – Undergraduate Tuition and Fee Grants  6430 – Graduate Tuition and Fee Grants	SIS my.harvard Term Bill	Not Taxable	Not Taxable
Is the payment to support an individual's education pursuit of study or research or cover their living expenses?  *Payments for certain study abroad, summer research or public service programs for undergraduates are often processed through SIS using 6461 as a payment to the student.	Nonqualified Fellowship (Stipend)  Also known as fellowships, grants, travel grants, study abroad, research grants, etc.	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.	6460 – Other Grants + Amounts Paid to Students for international students (HCOM)  6440 – Graduate Student Stipend (suggested when used for multiple, recurring payments) paid via PeopleSoft HR Stipend OR 6460 – Other Grants + Amounts Paid to Students Suggested for one-time payments paid via HCOM	Undergraduate HCOM - PR Check to student  Graduate Students PeopleSoft HR Stipend Check to student  HCOM – PR Check to student	Harvard is not required to report payments to the IRS or to the recipient  No withholding is required at time of payment being issued.  Recipient must self-report as gross income	Harvard is required to report payments to the IRS and to the recipient on Form 1042-S  Withholding is required (usually at 14% or 30%) but can be reduced by tax treaties if available  Not taxed if activity is completed outside of the US.





# Processing Payments to Harvard Students (continued)

Scenario	Payment Type	Description	Object Code	Payment System	US Tax Residents	Nonresident Aliens
Is the payment predicated on a past accomplishment or winning a competition?	Prize or Award	A gift for a task well done or a past accomplishment, i.e., writing the best essay, earnings the highest GPA	6462 – Prizes, Students General	HCOM – PR Check to student	Harvard must report to the IRS and issue prize recipients a Form 1099 if the prize amount is \$600 or more aggregate for the year  1099MISC Box 3	Harvard is required to report payments to the IRS and to the recipient on Form 1042-S.  30% Withholding is required. Not eligible for tax treaty exemption
Is the expense a required course expense?	Course Expenses	Some travel or other course expenses are nontaxable if: <u>The travel or other expense is required as part of a course</u> (see below); and The recipient is a <u>registered degree candidate</u> ; and The expenses are necessary in delivering the course and budgeted as part of the course cost.	Use appropriate object code description.	HCOM – NR Check to student  Must follow accountable plan rules (receipts, timely processing, Harvard business).	Not Taxable	Not Taxable



# Processing Payments to Harvard Students (continued)

Scenario	Payment Type	Description	Object Code	Payment System	US Tax Residents	Nonresident Aliens
Is this a reimbursement for expenses incurred in direct support of University research or scholarship?	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	Use appropriate object code description.	HCOM – NR Check to student  Must follow accountable plan rules (receipts, timely processing, Harvard business).	Not Taxable	Not Taxable



# Pop Quiz!

Q: A school has an endowment that will award up to \$4,500 in prizes to students. The funds are for financial support for individual projects. Is this a Prize or Fellowship?

A: Does the student need to complete something in order to receive the funds or was it for an individual project that had already been completed? If the funds are to be used for a student to complete an individual project, it is a fellowship.

Q: A group of students submit an application to a competition for a best “app” of the year and win 2<sup>nd</sup> place.

A: This is a prize. It is in recognition for a past accomplishment (i.e., winning app).

Q: As part of their appointment, a nonemployee fellow is given funding for one round trip home per semester. What type of payment is this, and is it taxable?

A: This is a travel grant/fellowship payment, and it taxable to the individual.

Q: Students submit a proposal to do research; students selected have to deliver a presentation at the end of the semester about their activities. The presentation is required to ensure the student is accountable and completes the activity as proposed. Is this a fellowship, prize or other?

A: Fellowship – it’s not for a past accomplishment; 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.



# Pop Quiz!

Q: As part of their agreement, a postdoctoral candidate is told that Harvard will pay for their health insurance costs. What type of payment is this and is it taxable?

A: This is considered a fellowship since it is a living expense.

Q: Harvard agrees to pay for a laptop for a fellow, which they will keep. What type of payment is this?

A: This is considered a fellowship since it is not directly benefitting Harvard.

Q: A student working in a lab attends a conference to present their own research. Harvard wants to reimburse the costs they incurred. Without any other details provided, what type of payment is this? How would this payment be processed?

A: Fellowship, on an “In Lieu of Invoice Form”.

Q: Follow-up: What factors might change this payment classification, and would the payment get processed differently?

A: Student is presenting research on behalf of Harvard – Harvard Business Expense

Student was sent to the conference at the request of Harvard and will give a brown bag session on what they learned – Harvard Business Expense

Student is an NRA and the conference was held outside of the U.S. – Fellowship and foreign-sourced income



# References

[Business Expense Reimbursements Policy](#)

[Fellowship Payments](#)

Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows

General Information for Fellowship Recipients

Fellowships Toolkit

[GLACIER](#)

FAQ

Instructions

[Nonresident Alien Tax Compliance](#)

[Travel Policy](#)

[IRS Publication 970 – Tax Benefits for Education](#)



# Appendices

- Employee Fellows vs Nonemployee Fellow Pay Groups
- US vs Foreign Sourced Income
- Common Payment Types
- Grossing Up Fellowship Payments
- Processing Third-Party Payments
- Common Types of Payments to Nonemployees
- Common Types of Payments to Employees
- Basic Tax Concepts
- Common object codes



# Employee Fellow vs Nonemployee Fellow

Term	PeopleSoft Pay Group	Employee or Nonemployee for Tax Purposes?	Commonly Used Object Codes	Description
Stipendee Postdocs (or External Postdocs)	MEP	Nonemployee	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	MTF	Nonemployee	6140	Nonemployees who are ineligible for benefits but are paid via Harvard payroll.
Monthly stipend recipients or students receiving financial aid	MST	Nonemployee	6440	Generally, graduate students
Other academic appointments	MTF	Employee	6030	



# U.S. Source vs. Foreign Source Income

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.
- **Prizes** are reportable for US citizens who must get a Form 1099 from Harvard if the prize is \$600 or more or the recipient receives aggregate of \$600 from Harvard in a calendar year; prizes paid to nonresident aliens must have taxes taken out and will be reported on Form 1042-S.





# Common Payment Types

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>• The travel or other expense is required as part of a course; and</li> <li>• The recipient is a registered degree candidate; 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	Individual must preform an action or complete a deliverable in order to be paid.	PeopleSoft	Yes
	----- Independent Contractor if meets the classification	HCOM – PR	



# Grossing Up Fellowship Payments

In certain situations where budget, University, and departmental policy allows, departments may wish to “gross up” a payment. This may be utilized to achieve a specific “net amount”, accounting for any required tax withholdings on payments processed to nonresident aliens (or on their behalf). The payment is reportable to the individual for the “gross amount”. Depending on the particular situation, tax withholding on payments to nonresident aliens is typically 14% or 30%. If an individual later claims a tax treaty exemption, they may be eligible for a refund of all taxes, then receiving the entire “gross amount” paid.

Before grossing up a payment, departments are encouraged to contact the Nonresident Alien Tax Compliance Team at 5-8500 ext. 5, to confirm the recipient’s tax status and withholding rate on payments intending to be processed at that time. Remember that this data could change at any point, so there is a risk of overpayment (e.g. tax treaty later claimed, becoming a resident alien). **Due to the significant cost, gross ups must come out of the requesting department’s budget.**

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

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

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



# Processing a Third-Party Payment

If you pay a vendor *on behalf of another individual* (i.e., Harvard pays health insurance for a post doc to UHS), 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.**

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 style="margin-left: 150px;">} <i>Harvard Pilgrim Healthcare’s address</i></p>	<p>Once the new site is set up, create the payment request and choose <b>Sally Smith</b> (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:

- 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.
- “Gross up” a third party payment might be required if paying a nonresident alien (see previous slide)



## Most Common Types of Payments to NON-EMPLOYEES

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	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.](#)

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 net 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](#)

# Basic Tax Concepts

Every time a person receives a payment from Harvard – even an expense reimbursement - that payment may be considered income unless an exclusion applies.

If an exclusion applies it is considered a **qualified** (nontaxable payment). Exclusions include:

- Payments or reimbursements that are for valid Harvard business expenses and meet accountable plan rules (valid business purpose, substantiation, timely processing).
- Payments for required tuition and fees for a degree program (often called scholarships).

If an exclusion does not apply it is considered a **nonqualified** (taxable or reportable payment).

Nonqualified payments include fellowships, prizes, travel grants, research grants, etc.

- Depending on the situation, taxes may be withheld up front from gross income payments (as with salaries and wages or fellowships for nonresident aliens) or may not be withheld (as with fellowships to U.S. residents).
- Gross income: The amount earned before anything is taken out for taxes or other deductions. Fellowship payments may constitute “gross income” to the recipient and need to be included on the recipient’s tax return.



# 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 nonservice 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.
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

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.
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 nonemployees 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.





# Object Codes Nonstudents

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.

