

## STIPEND PROCEDURES

The University of Arkansas at Little Rock has externally imposed reporting requirements for stipend payments. The awarding criteria may result in the stipend being potentially reportable taxable income for the recipient. We have a responsibility to correctly report the character of the stipend to the external agencies and the recipient.

The income received by a student is taxable income regardless of the classification as compensatory or non-compensatory (scholarship) stipends. However, amounts classified as non-compensatory are eligible for potential exclusion from income under Internal Revenue Code (IRC) Section 117 for those amounts paid for tuition, required fees, books and course required supplies. For the amounts classified as compensatory stipends, the same exclusion from income under IRC 117 is NOT available.

The identification of the potential taxability of a stipend is best accomplished at the creation or awarding stage. The following definitions, procedures and worksheet are provided to give the campus a uniform approach to the awarding and accounting for stipends.

### DEFINITION

The American Heritage Dictionary defines stipend as “a fixed and regular payment, such as a salary for services rendered or an allowance.” In colleges and universities, stipends normally are divided into two categories – compensatory and non-compensatory.

**Compensatory Stipend** - Payments made to an individual contingent on the individual completing a specified activity. UALR can immediately withdraw or cancel the stipend if the payee discontinues participation in the activity after starting it. The passage of time or delivery of a particular instance of service may trigger the payment. Compensatory stipends are normally considered taxable income.

**Non-compensatory Stipend** – Payments made to an individual that are not contingent on the individual’s completing a specified activity. UALR may continue the payments through the academic term even though the payee does not participate in the activity. On campus we normally refer to them as Scholarships or Grant-in-aid Stipends, which are associated with enrollment in an educational program and/or participation in certain institutional activities, such as musical groups or athletic teams not defined as employment.

### CLASSIFYING

**UALR will consider all stipends compensatory unless proven otherwise.** It is the responsibility of the *department providing the funding* to evaluate the conditions for the awarding of the stipend and make a determination of the proper classification. If a stipend is paid as a scholarship or grant-in-aid stipend, and later is determined by a taxing authority that the stipend was compensation, the originating UALR department may be financially responsible for any tax assessment against the institution due to the in appropriate classification.

## **DISCLOSURE**

The University will provide written notification of the awarding of the stipend. The letter awarding the stipend will include the following disclosure statement (either compensatory or non-compensatory should be used, not both):

*“Based on our review of your stipend it appears that your stipend is compensatory/non-compensatory. Information on your potential tax liability is as follows:*

***Compensatory Stipend*** - *Payments made to an individual contingent on the individual’s completing a specified activity. UALR can immediately withdraw or cancel the stipend if the recipient discontinues participation in the activity after starting it. Compensatory stipends are reportable as taxable income. UALR has tax reporting and tax withholding responsibilities and will issue a W-2 and/or a 1042S to the recipient.*

***Non-compensatory Stipend*** – *Payments made to an individual that are not contingent on the individual’s completing a specified activity. UALR may continue the payments through the academic term even though the recipient does not participate in the activity. On campus we sometimes refer to them as Scholarships or Grant-in-aid Stipends. Non-compensatory stipends may be eligible for partial exclusion from income under Internal Revenue Code Section 117. UALR has no tax reporting or tax withholding responsibilities except for foreign nationals.*

*If you have questions regarding your particular tax liability, please see your tax advisor. “*

The award letter must also provide a place for the recipient to sign and return a copy to accept the award and acknowledge our disclosure of the potential for taxability.