

**LOYOLA UNIVERSITY CHICAGO  
DEPARTMENT OF PAYROLL SERVICES**

**FELLOWSHIP AND SCHOLARSHIP  
STATEMENT OF REPORTING RESPONSIBILITY**

**1. PURPOSE**

At the beginning of each academic year, candidates are awarded scholarships and fellowships. The purpose of this document is to define and communicate the current rules, responsibilities and internal procedure to be followed in an effort to standardize their application.

**2. TAX-FREE SCHOLARSHIPS AND FELLOWSHIPS**

A scholarship or fellowship is tax-free only if it meets the following criteria:

- The individual is a candidate for a degree at an eligible educational institution, and
- The scholarship or fellowship is used to pay for qualified educational expenses.

**3. TAXABLE SCHOLARSHIPS AND FELLOWSHIPS**

If the scholarship or fellowship does not meet the criteria above it is considered taxable. The following examples may be considered taxable:

- Any amount used to pay expenses that are not considered qualified expenses even if the expense is a fee that must be paid as a condition of enrollment or attendance.
- Any payment for past, present or future teaching, research or other services. This applies even if these services are a requirement to receive the degree.
- Scholarship prizes are fully taxable unless they meet the criteria established for Tax-Free Scholarships and Fellowships.

**4. QUALIFIED EXPENSES**

Tax-free scholarships and fellowships may be considered as one of the following:

- Tuition and fees required to enroll at or attend an eligible educational institution, and
- Course related expenses (including but not limited to fees, books, supplies, or equipment) that are required for the courses at the eligible educational institution. These items must be required of all students enrolled in a given course of instruction.

Expenses that do not qualify include the costs of room and board, travel, research, clerical help or any equipment or other expenses that are not required for enrollment in or attendance at an eligible education institution.

For additional information and more specific examples of qualified and unqualified expenses, see table 1-1 of IRS Publication 970 – Tax Benefits for Education.

## 5. REPORTING

- BY UNIVERSITY:

Any payment (even if called an award, scholarship or fellowship) issued for teaching, research or any other service as a condition for receiving the funds are considered wages and will be reported on Form W-2.

- BY RECIPIENT

Other payments for “unqualified educational expenses”, such as room and board, travel, etc. (even if called an award, scholarship or fellowship) are taxable payments that you as the recipient may be required to report. The IRS does not require the University to report these payments on any form.

Worksheet 1-1 of IRS Publication 970 – Tax Benefits for Education provides a mechanism to determine the tax-free and taxable portions of a scholarship or fellowship.

In general, the requirement to report depends on whether or not a recipient must file a return and whether any part of the scholarship or fellowship is considered taxable.

If all or part of a scholarship or fellowship is taxable and you are therefore required to file a return, it is necessary to report the amount appropriately.

It is the responsibility of the recipient to report all taxable amounts accordingly.

For additional information relating to your potential tax liability (including reportability and estimated quarterly tax payments) of your Scholarship or Fellowship, see IRS Publication 970 – Tax Benefits for Education.

## 6. DEFINITIONS

**Scholarship:** A scholarship is generally an amount paid or allowed to, or for the benefit of, a student (undergraduate or graduate) at an educational institution to aid in the pursuit of studies.

Fellowship: A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

Candidate for a Degree: An individual is a candidate for a degree if they attend a primary or secondary school or are pursuing a degree at a college or university, or if they attend an accredited educational institution that is authorized to provide a program that is acceptable for full credit toward a bachelor's or higher degree or a program of training to prepare students for gainful employment in a recognized occupation.

Eligible Educational Institution: An eligible educational institution is one that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

## **7. SOURCES (subject to change)**

[www.irs.gov](http://www.irs.gov) – Internal Revenue Service Website

IRS Pub 970: Tax Benefits for Education

IRS Pub 501: Exemptions, Standard Deduction and Filing Information