

## **TAXABLE FELLOWSHIPS: FEDERAL INCOME TAX WITHHOLDING OPTIONS**

### **Non-Qualified Fellowships**

Non-qualified fellowships are defined by the IRS to be grants that you receive that are not used to pay for tuition, fees or those course-related expenses that are required of all students in your course of instruction. The IRS considers these non-qualified fellowship amounts to be taxable income, reportable by you, the recipient, on your personal tax return. The IRS has directed all Universities that the responsibility for reporting non-qualified fellowship payments and remitting the appropriate federal income taxes must lie with the recipient of the fellowship, not the University \*. Therefore, any fellowship payments that you receive from Lehigh University will not be included in your federal taxable gross and, unless you advise us otherwise (see below), the University will not be withholding federal income tax from those payments.

\*Please note, however, that there are special rules for foreign students. If you are a nonresident alien student, please refer to the paragraph below titled "Nonresident Aliens".

### **Income Tax Withholding Option**

Lehigh University will provide fellowship recipients with the option of having income tax automatically withheld from their fellowship payments throughout the year. The appropriate amount of income tax withholding, if any, will depend upon your personal tax situation. By having income tax withheld from your pay, you reduce the risk of underpayment penalties and reduce cash flow difficulties on April 15<sup>th</sup>.

### **How to Request Income Tax Withholding**

To request income tax withholding on your fellowship, complete the Graduate Fellowship Income Tax Withholding Request form. The form is available on the Controllers Office web page under Payroll Forms. Please indicate how much you wish to have withheld during each semi-monthly pay period during the term of your fellowship. The federal tax tables are provided on the Payroll Office web page to assist you in determining what may be the appropriate amount of income tax withholding. Please submit all withholding requests to the Payroll Office, 524 Brodhead Avenue.

### **Nonresident Aliens**

If you are a nonresident alien receiving a non-qualified fellowship payment, the University is required by the IRS to report and withhold on that fellowship payment. The amount of your fellowship will appear as Gross Income on your form 1042s at the end of the year. If you have qualified for a tax treaty for your fellowship, we will not withhold any federal income tax. Otherwise, federal income tax will be withheld at a rate of 14%. Your fellowship payments are not subject to taxation by the Commonwealth of Pennsylvania or the City of Bethlehem.

## **Year End Reporting Requirements for U.S. Residents**

### What's reported on Form W-2

At the end of the calendar year, you will receive a Form W-2 reporting the total income tax withheld by the University. The Form W-2 will report no taxable fellowship wages, only income tax withheld. The Form W-2 will provide the IRS with satisfactory verification of the actual income tax payments made on your behalf and should be attached to your personal income tax return.

### Determining Total Fellowship Amount

The total taxable fellowship amount you have been paid in the calendar year can be found on your final pay statement of the calendar year. In the Earnings section of your pay stub, add the totals for "Fellowsh" or "FellowNR" in the "Amount Year to Date" column. If you don't have your last pay statement, your year to date earnings can also be found on the Web for Employees. You must add this amount to your other taxable earnings on your federal income tax return.

### Form W-2 reporting if you also had an appointment for services

If you also held another appointment for services during the calendar year, such as an assistantship, your Form W-2 reflects all the taxable wages and any taxes withheld from your service related appointment, plus any taxes you had withheld from your fellowship appointment. Even though your service related appointment is always paid separately from your fellowship appointment, the total taxes withheld from both appointments is combined on your Form W-2. You will not receive separate Forms W-2 for each appointment.

### FICA, State and Local Taxes

Fellowship payments are not considered taxable by the Commonwealth of Pennsylvania or the City of Bethlehem. They are not includable in your FICA wages.

### For More Information:

For information on the income taxability of non-qualified fellowships and how to report these payments on your personal tax return, please see IRS Publication 520, Scholarships and Fellowships. You may download this publication from the IRS web site: [www.irs.gov](http://www.irs.gov). In addition, please do not hesitate to call the Payroll Office at extension 82900 with any questions.