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MEMORANDUM

TO: Deans, Chairs, Directors and Business Managers

FROM: John R. Raymond, M.D.
John C. Sutusky, Ph.D.

RE: Processing Payments to Fellows and Trainees

DATE: October 21, 2002

Attached is a new MUSC policy to establish the procedures used to process fellowship and traineeship payments. Please read the new policy/procedure carefully and distribute as appropriate within your unit/department. This procedure is necessary to bring consistency in the way these payments are processed at MUSC.

As always, thank you for your cooperation.

Attachment

cc: Raymond S. Greenberg, M.D., Ph.D.
Mr. Patrick J. Wamsley
Mr. Stewart A. Mixon
Mr. Dillard C. Marshall
Ms. Jacquie' Jones

Processing Payments to Fellows and Trainees

Overview

The purpose of this policy is to establish the procedures used to process fellowship and traineeship payments.

General Guidelines

The Internal Revenue Service (IRS) Publication 520 covers the rules for the taxation of scholarships and fellowships payments. The publication states that the part of any grant, scholarship, or fellowship that represents payment for teaching, research, or any other service is taxable to the recipient. Colleges and universities are obligated to withhold taxes on any award that represents compensation for services. Nonresident alien recipients may have taxes withheld on awards that do not represent compensation for services. Their tax obligations are governed by their visa status, United States (U.S.) tax laws, and/or the tax treaty between the U.S. and their country of residence.

The Medical University of South Carolina is required by Federal law to withhold taxes on fellowships and traineeships that require the recipient to perform services (past, present or future) to receive the award. Failure to withhold the taxes when required may create unexpected tax liabilities for MUSC fellows/trainees and cause the University to incur serious financial penalties.

The department is responsible for determining if a fellowship/traineeship award represents compensation for services. If it is determined that it is not compensation for services, then the recipient is responsible for determining which portion is taxable.

To ensure that the University is complying with all Federal tax laws, a "Memorandum of Understanding" must be completed for each recipient of a fellowship/traineeship by the departmental representative who is in the best position to determine if there is a service requirement for the award.

The memorandum:

1. Explains the potential tax liability for the University and for the recipient,
2. Is valid for the duration of the award
3. Must be completed for each new, amended award, or change in status.

Processing Payments to Fellows and Trainees (Continued)

Procedures

To process a fellowship/traineeship award payment, the following procedure must be used by the department:

1. Complete the "Memorandum of Understanding" with the recipient and determine if the recipient is required to perform related services to receive the award. Check the appropriate box and then both the department and recipient sign on the appropriate line.
2. Provide a copy of the completed "Memorandum of Understanding" to the recipient.
3. If the second block is checked, the recipient must contact Financial Management at 792-6810 with Visa information to determine tax treaty status. Financial Management will send notification of tax status to Grants & Contracts Accounting (GCA) and Accounts Payable. If the second block is checked and no notification is received by GCA from Financial Management, payments will not be processed.
4. If the first or second block is checked indicating that the recipient is not required to perform services, forward a request for payment along with a copy of the "Memorandum of Understanding" to the Grant Accountant in GCA. If the department is unable to complete the memorandum with the recipient before the request needs to be processed, do not delay the request. The department should forward the request for payment to GCA in a timely manner. The Memorandum of Understanding must be completed and forwarded to GCA by the 10th working day of the semester in which the award originates.
5. If the third or fourth block is checked, the payment is to be made through payroll and a Position/Employee Action Request (PEAR) form (including a copy of the "Memorandum of Understanding") should be submitted to the Office of Human Resources Management.

The request should include the following information:

- a. The awardee's name and social security number;
- b. The source of funding (UDAK, sponsor, and grant number);
- c. A description of the expenditure to be charged to the stipend account;
- d. The amount and date(s) of payment distribution to the awardee;
- e. A department contact and phone number.

Forms

The Memorandum of Understanding may be printed using the Adobe Acrobat Reader.

MEDICAL UNIVERSITY OF SOUTH CAROLINA
MEMORANDUM OF UNDERSTANDING
TAX IMPLICATIONS FOR FELLOWSHIPS/TRAINEESHIPS

TO:	Fellowship/Traineeship Recipients	Effective MM/DD/YY
FROM:	Name of Departmental Representative	Title

The Internal Revenue Code has special provisions that address the tax status of fellowships/traineeships. Please note that any tax responsibility under this law belongs to the recipient. This memorandum is provided to you for general information only. Each recipient is responsible for determining how the tax law applies to his/her particular circumstances. Outlined below are some key points regarding the tax law.

1. A recipient (U.S. Citizen or Resident Alien) who receives a fellowship/traineeship award for which he/she is not required to perform services (past, present, or future) may exempt the portion of the award that is used for qualified tuition and related expenses (tuition, fees, books, supplies, and other equipment required for courses). Any portion of the award used for other expenses, such as room and board or travel, is considered part of the recipient's gross income and must be reported on his/her individual tax return. Because the recipient has no employment relationship with the Medical University of South Carolina, the University is not required to withhold taxes on the taxable portion of the award and has no tax reporting obligation to the Internal Revenue Service (IRS) or the recipient.
2. A recipient who receives a fellowship/traineeship award in which the terms of the award states that a certain amount cannot be used for tuition, fees, books, supplies or required equipment for his/her courses (i.e. a certain amount must be used for room, board or anything other than tuition, books supplies or equipment) is responsible for reporting that amount as gross income on his/her individual tax return. **Only tuition, fees, books, supplies and equipment required for enrollment or attendance at an educational institution qualify for exemption from income tax. Any amounts received in excess of tuition and course related fees (e.g., room, board and other living expenses) are subject to tax and accordingly, must be reported to the IRS by the recipient.** Again, because the recipient has no employment relationship with the University, the university is not required to withhold taxes on the taxable portion of the award and has no tax-reporting obligation to the IRS or the recipient.
3. The tax rules applicable to fellowship/traineeship awards made to nonresident alien recipients differ from those applicable to recipients who are U.S. citizens or resident aliens. The amount of a fellowship/traineeship award made to a nonresident alien recipient that does not constitute a qualified scholarship amount or represent compensation for services is reportable by the University to both the IRS and the recipient on IRS Form 1042S. The portion of the award that is used for qualified tuition and related expenses are exempt from U.S. tax. The remaining portion of the award is subject to tax and is considered part of the recipient's gross income and must be reported on his/her individual tax return. The University will withhold tax at the rate of 14% on this taxable portion unless the award is exempt under a tax treaty between the U.S. and the fellow/trainee home country. The recipient must supply the University with IRS Form 8233 in order to claim the benefit of a tax treaty.
4. The University is responsible for withholding payroll taxes on the portion of a fellowship/traineeship award made to a recipient (U. S. Citizen, Resident Alien, or Nonresident Alien who is not claiming an exemption under the provisions of a tax treaty) which represents payment for services required to be performed in order to receive the award. The University will provide the recipient with a Form W-2 at year-end, which will report to him/her income earned and taxes withheld. The recipient is responsible for determining his/her tax liability and filing his/her individual income tax return with the IRS.
5. The portion of a fellowship/traineeship award that constitutes qualified tuition and related expenses is not subject to tax. **Ultimately, it is the recipient's responsibility to determine his/her tax liability and file a tax return with the Internal Revenue Service each year.**

MEDICAL UNIVERSITY OF SOUTH CAROLINA MEMORANDUM OF UNDERSTANDING

Fellowship/Traineeship recipients please place an "X" in the appropriate category and sign on the line below. Your signature indicates that you understand your obligation(s) regarding the reporting of your stipend as taxable income on your tax return.

1. _____ I am a United States Citizen or a Resident Alien, and **I am not required** to perform services to receive my stipend. I understand that I am not a Medical University of South Carolina employee for payroll tax withholding purposes, and I am not covered by Worker's Compensation under South Carolina Law. Furthermore, I understand that it is **my responsibility** to determine my tax liability and file my United States tax return with the IRS.

2. _____ I am a Nonresident Alien who has received a fellowship/traineeship. I am **not** required to perform services to receive my stipend. I understand that, because I am not a United States Citizen, payments to me are governed by my visa status, United States tax laws, and/or the tax treaty between the United States and my country of residence. In accordance with all of the above, payments made to me may be taxable and may be subject to withholding even if they do not represent compensation for services. Furthermore, I understand that the University may issue a Form 1042S annually, and that it is **my responsibility** to file **appropriate tax documents** with the IRS each calendar year.

3. _____ I am a United States Citizen, a Resident Alien, or a Nonresident Alien who is **not** claiming tax treaty status, and I **am required** to perform services to receive my stipend. I understand that I am a Medical University of South Carolina employee for payroll tax withholding purposes, and I am covered by Worker's Compensation under South Carolina Law. Furthermore, I understand that I will receive a Form W-2 from my employer which will report my wages earned and taxes withheld for the calendar year. I also understand that it is **my responsibility** to determine my tax liability and file my United States tax return with the IRS.

4. _____ I am a Resident Alien or Nonresident Alien who **is** claiming tax treaty status and I **am required** to perform services to receive my stipend. I understand that I am a Medical University of South Carolina employee for payroll tax withholding purposes, and I am covered by Worker's Compensation under South Carolina Law. Furthermore, I understand that I will receive a Form 1042S and may also receive a Form W-2 from my employer which will report my wages earned and taxes withheld for the calendar year. I also understand that it is **my responsibility** to determine my tax liability and file my United States tax return with the IRS.

Printed Name of Recipient

Employee ID Number

Signature of Recipient

Date

Signature of Departmental Representative

Date

Name of Fellowship/Trainee

UDAK Number