

SCHOLARSHIPS

DePaul University may provide financial assistance to students, whether graduate or undergraduate, to assist with tuition and educationally related expenses. Such aid may be in the form of cash (sometimes referred to as a “stipend”), scholarships, or credits to the students’ accounts. The tax implication of such assistance varies depending on the individual facts and circumstances of each situation. The information below is intended to provide the DePaul community with a general overview of IRS rules and regulations affecting such assistance. DePaul University does not provide tax advice and nothing below should be construed as such.

Scholarship: A scholarship as defined by the Internal Revenue Service as an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in their pursuit of study.

Qualified (Tax-Free) Scholarships: Generally, in order for scholarship funds to be tax-free, the recipient must be:

- a candidate for a degree, and
- use the funds to pay qualified tuition and related expenses.

Candidate for Degree: In order to qualify as a candidate for a degree the student must (i) attend a primary or secondary school or is pursuing a degree at a college or university, or (ii) is attending an accredited educational institution that is authorized to provide either 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.

Qualified tuition and related expenses (QTRE): QTRE includes tuition and fees required to enroll at or attend an eligible education institute, and course-related expenses such as fees, books, supplies, and equipment that is required for the courses. Expenses must be required of all the students enrolled in the course in order to qualify.

Non-Qualified (Taxable) Scholarships: If the scholarship does not meet the above requirements of a qualified scholarship, then generally all or a portion of the scholarship may be taxable to the recipient. The following illustrates which portions may be taxable to the recipient:

- **Non-Qualified Expenses:** Amounts used to pay expenses that **do not** qualify as course-related expenses (i.e. Room and board, travel, research, clerical help, or equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution). Generally, in this situation the scholarship recipient is responsible for determining the taxable portion of the scholarship, if any. See below “Tax Reporting” for more information.
- **Payments for services:** Generally, if a scholarship recipient is required to perform past, present, or future teaching, research, or other services in order to receive the scholarship, the portion which represents payment for such services is includable in gross income as taxable compensation and would be subject to applicable employment taxes and withholdings. This applies even if all candidates for the degree are required to perform the services in order to receive the degree.

Example: Student A receives a \$6,000 scholarship from DePaul University. As a condition to receiving the scholarship, Student A performs services as a researcher for DePaul. Other researchers who are not scholarship recipients receive \$2,000 for similar services. Therefore, \$2,000 of the scholarship amount represents payment for services and must be included in Student A’s gross income as wages and reported as such on Student A’s Form W-2. If Student A establishes expenditures of \$4,000 for “qualified tuition and related expenses”, then the remaining \$4,000 of Student A’s scholarship may be excludable from his or her gross income as a qualified scholarship.

- **Scholarship prizes:** If a scholarship is won as a prize in a contest, generally it may be taxable unless (i) there was no wager required for a chance to win the prize, (ii) it was paid through Financial Aid, and (iii) the scholarship aid was restricted for educational purposes only (see also the DePaul University [Prizes, Gambling Events, and Wagering](#) policy).

Athletic Scholarships: Athletic scholarships would be tax-free as long as they satisfy the requirements of a qualified scholarship.

Stipends: The term stipend is a broad term which has been used to describe several different types of payments made to students. It is important to look closely at these payments to determine **why** the “stipend” is being awarded to the student. Generally, if a stipend is received in exchange for services rendered, the stipend would be included in the recipient’s gross income as taxable wages. However, this determination must be made on a payment by payment basis and is dependent on the individual facts and circumstances.

Tax Reporting:

- **U.S. Citizens and Resident Aliens for Tax Purposes:** Generally, unless services are provided as a condition of receiving aid, DePaul University is not required to tax report or withhold on either qualified or nonqualified scholarship amounts. The recipient is generally responsible for determining the taxable portion of aid, if any, based on the use of the scholarship funds. However, the University is required to report all scholarship amounts, qualified and nonqualified, on IRS Form 1098-T. IRS Form 1098-T is used to support educational tax credits claimed on the annual individual tax return of the recipient or a person who claims the recipient as a dependent.

Nonresident Aliens: Qualified scholarship amounts provided to nonresident alien students is not tax reportable or subject to withholding by DePaul. However, unlike a U.S. citizen or resident alien for tax purposes, nonqualified scholarship amounts provided to a nonresident alien are subject to both tax reporting and tax withholding by DePaul. The nonqualified amount is reported to the IRS on Form 1042 and to the student on IRS Form 1042-S. Withholding is generally applied at a rate of 14%.

If services are provided as a condition of the scholarship, the portion of the scholarship which represents compensation for the services would be reportable as wages to the recipient, subject to all applicable employment taxes and withholdings.

Please refer to [IRS Publication 970, Tax Benefits for Education](#) for more information regarding the taxability of scholarships and other types of educational aid or contact [University Tax Services](#) with any questions.