

East-West Center Scholarship and Fellowship Tax Information

The information provided herein will hopefully help you understand your responsibilities relating to the United States Internal Revenue Service (IRS) and State of Hawaii income tax reporting at the end of each calendar year.

The East-West Center (Center) has established accounting procedures to enable the Center to comply with applicable IRS and State income tax reporting responsibilities relating to scholarships or fellowship grants (S&G) provided to our participants. In addition to the proper accounts to be charged, the Center's procedures and account coding is designed to track scholarship or fellowship benefits provided to each participant's award including, kinds of benefit (transportation, stipend, housing, tuition, health insurance, etc.), and the appropriate IRS income tax treatment to the participant (nontaxable, taxable, or reportable).

EWC Responsibilities

The East-West Center as payer and withholding agent of the scholarship or fellowship grant, is required by law to comply with the IRS regulations for reporting the applicable benefits and to withhold the proper amount of income taxes for the taxable benefits. We also take appropriate actions to ensure that the participants' tax treaty exemption and income tax status are correct before taking into account any special tax exemptions for respective each participant.

The participant should also have or will need to apply for an individual taxpayer identification number (ITIN) or if eligible a social security number (SSN). This enables the IRS to identify the participant's benefits and any related tax withholding in tax system. S&G benefit payments may be made to participants that do not have an ITIN but the Center will not be able to provide any tax treaty exemptions and must withhold applicable income taxes from any taxable benefit. The Visa Officer is able to assist with the SSN or ITIN application.

Participant's Responsibilities

The participant must file a federal tax return (see FAQ for exceptions) by April 15th following the tax year. State of Hawaii returns are due on April 20th following the tax year.

Procedures for Compliance

- A. Center must "Identify the Payee", since the participant's U.S. income tax status (US citizen, permanent resident, resident alien, or nonresident alien) determines whether taxes are withheld and how the benefits are reported to the IRS.
- B. Center must "Characterize the income and its source," to properly report and tax the scholarship, fellowship, or compensation, and to apply any special exemptions and exclusions, e.g., treaty and tax withholding rates.
- C. Center must file annual reports to IRS or the State for taxable and reportable S&G benefits provided to each EWC participant.

U.S. Citizen, Resident Alien (RA), or Nonresident Alien (NRA)

If a participant is not a U.S. citizen, they are considered to be a nonresident alien (NRA) for income tax purposes, unless they meet one of the two tests to be considered a resident alien (RA). They are a RA if you meet either the “green card” or the “substantial presence” test for the current tax year. **The U.S. tax year is January 1st to December 31st of each year.**

1. Green card: A non-US person will have a permanent resident status only if the Immigration and Naturalization Service has issued them an alien registration card, known as a “green card” providing the individual with lawful permanent residence in the U.S.
2. Substantial Presence Test (SPT): To be considered a resident alien, a non-US person must be present in the U.S. for at least:
 - a) 31 days during the current tax year, and
 - b) 183 days during the 3-year period that includes the current year and the preceding 2 calendar year periods. The days in the 2 previous years are computed using 1/3 of the days in the first preceding year and 1/6 of the days in the 2nd preceding year.

There are many exceptions to counting days for prior visits since 1985, such as visa type and purpose of stay, e.g., F, J, M, Q teacher, student, or trainee status, etc. so the analysis can be confusing. The Center has a substantial presence test form that can be used for this purpose. **Complete the SPT Form if you were in the U.S. any time prior to this year.**

Taxation of Scholarships and Fellowships Benefits

The extent to which the EWC scholarship or fellowship is taxed, reported, and federal taxes withheld depends upon:

- a) source of the funds,
- b) the participant’s U.S. income tax status (citizen, RA, or NRA), and
- c) the participant’s status as a degree candidate or a non-degree candidate.

(See IRS Publications 519 and 520 for more information on Scholarships and Fellowships)

In general, participants at the EWC will receive benefits from U.S. sourced income. The source of scholarships or fellowship grants is determined by the residence of the payer (EWC) regardless of who disburses the funds. However, NRAs receiving scholarship or fellowship benefits for activities held outside of the U.S., e.g., field study, are not considered to be U.S. source income and thus are not taxable to the NRA.

It is equally important that the Center keeps track of even the nontaxable payments to individuals so that we are able to substantiate to the IRS or applicable agencies that such payments are being properly accounted for and treated for US income tax purposes.

U.S. citizens, permanent residents, and resident aliens are taxed on their worldwide income and would be subject to income taxes on their taxable scholarship or fellowship grant benefits even though the activity is performed outside of the U.S.

A scholarship is generally an amount paid for the benefit of a student attending an educational institution to aid in the pursuit of studies.

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

Any part of a scholarship or fellowship that represents a payment for past, present, or future services is **compensation for services**, e.g., providing a payment to individual for doing services that benefits the organization, even though the person is “learning” by doing the services.

A scholarship or fellowship is **tax free** (excludable from gross income) **only if** you are a candidate for a degree at an eligible educational institution.

A scholarship or fellowship is tax free only to the extent:

- It does not exceed your expenses;
- It is not designated or earmarked for other purposes (such as room and board), and does not require (by its terms) that it cannot be used for qualified education expenses; and
- It does not represent payment for teaching, research, or other services required as a condition for receiving the scholarship.

Candidate for a degree. You are a candidate for a degree if you:

1. Attend a primary or secondary school or are pursuing a degree at a college or university, or
2. Attend an educational institution that:
 - a. Provides a program that is acceptable for full credit toward a bachelor's or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation; and
 - b. Is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

Per IRS, post-doc candidates are always considered to be non-degree candidates.

A **qualified scholarship or fellowship** is any amount you receive as a scholarship or fellowship grant that is used under the terms of the grant for:

- a. Tuition and fees paid to enroll in, or to attend, an educational institution, or
- b. Fees, books, supply, and equipment that are required for the courses at the educational institution. These items must be **required for all** students in your course of instruction.

The following table summarizes the tax treatment of your scholarship or fellowship grant.

Payment for	Degree Candidate (EWC students)	Not a degree candidate (Post-Docs, fellows)
Tuition	Tax free	Taxable
Fees	Tax free*	Taxable
Books	Tax free*	Taxable
Supplies	Tax free*	Taxable
Equipment	Tax free*	Taxable

Payment for	Degree Candidate (EWC students)	Not a degree candidate (Post-Docs, fellows)
Room (Housing)	Taxable	Taxable
Board (Stipend)	Taxable	Taxable
Insurance	Taxable	Taxable
Travel (airfare & per diem)	Taxable	Taxable
Teaching/tutoring	Taxable	Taxable
Research services	Taxable	Taxable
Other services	Taxable	Taxable
SEVIS and visa fees	Taxable	Taxable

* Tax free, ONLY if required of all students in the course.

Tax Treaty Benefits

If the participant is a NRA from a country with which the U.S. has a tax treaty, they may qualify for certain treaty benefits. Most treaties require that the alien **be a resident of the treaty country prior to arriving in the USA**. Furthermore, each treaty between the U.S. and any particular country is different on how even similar benefits are treated.

Many countries have treaty exemptions for S&G payments to teachers, professors, students, apprentices, and trainees. However, the treaty benefit may be limited to a specific time period or number of years and it may also limit the benefit only to payments from a non-U.S. payer (foreign payer). **Some of the tax treaty countries** that the EWC participants with S&G **benefits includes** Bangladesh, China, Indonesia, South Korea, Philippines, and Thailand.

Refer to IRS Publication 901 to find out more treaty benefits and other countries and IRS Tax Table at: https://www.irs.gov/pub/irs-utl/Tax_Treaty_Table_2.pdf

Some typical treaty benefits include, an exemption from tax withholding, a reduced tax withholding rate, or withholding for only certain items of income. While a tax treaty may exempt or reduce the amount of taxes that the EWC must withhold, the Center is still required to “Report” the taxable benefits to the IRS on the participant’s annual Form 1042-S.

Participants eligible for treaty benefits may file IRS Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting, with the EWC.

Participants must have a U.S. taxpayer identification (TIN) number to be eligible to claim tax-treaty, a Form without the identification number is not considered complete by the IRS for treaty purposes. EWC will not be able to grant immediate treaty benefits.

All taxpayers claiming tax-treaty exemption **must still file an annual U.S. income tax return to validate the tax-treaty exemption claim.**

U.S. Federal Income Tax Withholding

General Rule: Payer must withhold 30% federal income taxes on certain US source income payments to NRAs. For example, payments for services or non-scholarships or non-fellowship benefits to NRAs, e.g., honoraria are required to be withheld at 30%.

No federal income taxes are required to be withheld from U.S. citizens and resident aliens. They are responsible to pay any necessary estimated taxes to avoid any penalties and reduce the amount of taxes that may be due on their annual income tax return.

Exceptions to the General Rule: 14% for F, J, M, or Q visa holders

Unless the NRA has claimed tax-treaty benefits for reduced or exemption from withholding, the Center is required to withhold federal income taxes on the taxable benefits at a rate of 14% of the net taxable scholarship or fellowship benefits for those with F, J, M, or Q visa status. All other visa holders will be taxed at the 30% withholding rates.

State of Hawaii income taxes

The State of Hawaii does not recognize the U.S. tax treaties and as a participant in the State, all participants (U.S. citizens, RAs, and NRAs) may owe Hawaii income taxes on the taxable benefits. The **EWC does not withhold any Hawaii income taxes** from the taxable benefits. Participants are responsible to pay any necessary estimated taxes to avoid any penalties and reduce the amount of taxes that may be due on the annual State of Hawaii Income Tax Return.

Annual Tax Information Forms

The EWC will provide all of our participants with a Certification Letter (see sample in Exhibit I) for the scholarship or fellowship benefits paid to the participant during the calendar year. U.S. citizens and resident aliens will NOT receive any Form 1099 or other Federal income tax reporting forms from the EWC. They may use their personal records or the Center's Certification Letter to prepare and file annual Federal and State income tax returns.

Nonresident Aliens will receive a Form 1042-S indicating the only the taxable benefits received during the calendar tax year. The Certification Letter will provide additional information as to the composition of the taxable benefits.

Participant Tax Responsibilities

Among other things, you are responsible for compliance with the applicable Federal and State of Hawaii income tax regulations, including annually filing a personal Federal and State of Hawaii income tax return.

The Center purchased an income tax software to enable the NRA participants to complete their Federal income tax return. The GLACIER Tax Prep is provided at no charge to the Center's NRA participants. There is no State of Hawaii income tax software available for NRAs.

Information on access to the **FREE nonresident alien tax return preparation software** will be provided to you when the annual tax information Form 1042-S is sent to you in March 2022.

Internal Revenue Service website and Publications for international taxpayers:

<https://www.irs.gov/Individuals/International-Taxpayers>

For more information refer to [Publication 970](#), *Tax Benefits for Education*.

Hawaii Tax Forms website

<http://tax.hawaii.gov/forms>

Hawaii Tax Forms by Category – Individual Income Tax – Resident and Nonresident