

CASH DISBURSEMENTS – ALL UNDERGRADUATE AND GRADUATE STUDENTS

Payments to and for the benefit of students can be for scholarships, awards, employment-related, or for reimbursement of expenses. The USM Foundation includes a reference to IRS Publication 970 with each check that is sent directly to a student.

SCHOLARSHIPS:

Scholarships are payments made to assist in retaining students, with no benefit expected.

➤ **Required information:**

Required information regarding the recipient(s) which must accompany the DISBURSEMENT REQUEST FORM includes:

- ✓ Name
- ✓ SS #, if the USM Foundation is paying the student directly
- ✓ Academic year
- ✓ Award notification letter to the student or other official documentation such as the Financial Aid verification report.

➤ **Taxability:**

- ☆ Under *IRC Section 117*, scholarships for tuition, books and fees are not taxable. Any amount in excess of tuition, books and fees is taxable.
- ☆ Any payment given for services rendered, even if it is called a scholarship, is compensation and must be reported on a Form W-2.
- ☆ Scholarships that are not compensation or are not given to foreign nationals are not reportable. However, the student **must include the portion in excess of tuition, books and fees as income on his/her tax return.**

(See IRS Publication 970, Tax Benefits for Education, for more information.)

<http://www.irs.gov/pub/irs-pdf/p970.pdf> or call 1-800-829-3676

➤ **Expense reimbursement:**

There are occasions when a student receives notice of a scholarship award after he/she has already paid some or all of the costs that are covered by the scholarship. In those circumstances, upon receipt of the required information and documentation to confirm the award, the USM Foundation can reimburse the student directly for those pre-paid expenses.

➤ **Procedures for reimbursement:**

Each institution has its own procedures for determining scholarship awards and coordinating the payments associated with those awards:

UMCP: USM Foundation checks are issued payable to the University. Information on scholarships must be communicated to the Office of Financial Aid (OFA). OFA provides the departments with reports confirming the award(s) made. A copy of the report is submitted to the USM Foundation with the Disbursement Request Form and provides the required information detailed above.

UMB: USM Foundation checks can be issued payable to the student directly or to the University. When requests are for payments directly to the student, the formal letter notifying the student of the award must accompany the Disbursement Request Form. In all

other cases, required information regarding the recipient(s) must be included with the Disbursement Request Form.

UMBC: USM Foundation checks can be issued payable to the student directly, or to the University. Information on scholarships must be communicated to the Office of Financial Aid (OFA) using a five-part form they supply. One part of the form must be sent to OFA and one part must be submitted with the Disbursement Request Form.

UMES: USM Foundation checks are issued either payable to the student directly or to the University. The pink copy of the UMES Scholarship Authorization Form signed by the Office of Financial Aid must be attached to the Disbursement Request Form.

UMUC: USM Foundation checks can be issued payable to the student directly or to the University. Scholarships are coordinated through various departments at the University. Required information regarding the recipient(s) must accompany the Disbursement Request Form.

AWARDS:

Awards are designed to recognize achievement. Awards to recognize academic achievement may be paid directly to the student. An *IRS Form W-9* as well as the notification letter must accompany the Disbursement Request Form.

- ☆ Awards paid to students are considered taxable and are reportable on Form 1099 under *IRC Section 74*.

EMPLOYMENT RELATED PAYMENTS:

If a student is given funds for which he/she must work (i.e., teaching assistant), that student must be an employee.

Employment can either be handled through the University's payroll system, in which case the USM Foundation can reimburse the University from the appropriate account, OR employment can be arranged through the USM Foundation payroll system. (*See section on PAYROLL for information on placing a person on the USM Foundation payroll.*)

- ☆ Any payment given for services rendered, even if it is called a scholarship, is compensation and must be reported on a Form W-2.

TRAVEL RELATED PAYMENTS:

Travel related payments to students fall into two categories:

- (1) when the student is representing the University, such as when the debate team travels;
- (2) when travel is for activities related to the student's academic program, such as when a student participates in a research trip.

For payments under category (1), the student is treated as an employee and any payment must comply with the "Accountable Plan" rules. These payments are not reportable as taxable income.

A payment under category (2) is considered a scholarship and is subject to the rules for scholarship payments. The payment may therefore be taxable to the recipient.

(*See IRS Publication 970, Tax Benefits for Education, for more information.*)

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