UTK-Participant Support Costs: Processing Stipends or Fellowships on Sponsored projects

What is a Stipend or Fellowship???

- Under Federal Guidelines stipends or Fellowships are defined as support paid to or on the behalf of participants or trainees but not employees. They include, but are not limited to:
    - Subsistence Allowances,
        - Travel Allowances,
            - Meal Allowances
                - Housing Allowances,
                - Registration Fees,
                - Etc…

What is the UTK Process for processing stipends/fellowships on sponsored projects?

- **In order to ensure compliance, the following methods must be used:**

- **UT Student Participants must be processed through Financial Aid.** The funds provided will need to be reviewed as part of their allowable aid package. Financial Aid will determine the impact to the aid package for each participant.

- **Non-UT Student Participants must be processed through A/P as a vendor**. This will require a "Workers Classification Form."

- A "T-27 Form will also be required." These participants will be exempt from receiving a 1099 tax form from UT.

What steps were taken in developing this process?

- Approximately 35 universities across the country who receive Federal awards were reviewed for policies related to processing Stipends/Fellowships (PSC's). In more than 30 of these universities, they followed the same process being implemented at UTK. A couple were able to use their payroll system. (This will be explained later!)

- Various UT Offices; Treasurer's Office, Tax Office, Human Resources Department, Financial Aid Office, Controller's Office, Sponsored Projects Accounting Office, as well as, our Financial Aid Office, consulted together after reviewing the Federal requirements, and determined this was the best approach based on our current systems.

Why is the University taking this process stance on PSC's?

- In short, we have to take steps to ensure we are in compliance with all regulations.

- We became aware of our current status of non-compliance through various avenues. One, we received a Federal Financial Aid Audit Finding. Multiple conferences were attended by various people in the areas of Budget and Finance, Financial Aid, and Sponsored Projects Accounting, where it was made clear that Stipends/Fellowships could not be paid as wages through a payroll system.

- Also, most recently, we encountered questions specifically related to processing participants through payroll under a current NSF Audit.

Federal Guidelines prohibit paying participants as employees using support funds.

What are the Federal Guidelines:

- IRS Topic # 421-Scholarships, Fellowships, and Other Grants

- Federal Student Aid Handbook

- Uniform Guidance, CFR 200.75

- NSF REU/Participant Support Requirements

IRS Topic # 421-Scholarships, Fellowships, and Other Grants

- **A scholarship is generally an amount paid or allowed to a student at an educational institution for the purpose of study. A fellowship grant is generally an amount paid or allowed to an individual for the purpose of study or research. Other types of grants include need-based grants (such as Pell Grants) and Fulbright grants.**

Tax-Free

- If you receive a scholarship, a fellowship grant, or other grant, all or part of the amounts you receive may be tax-free. Scholarships, fellowship grants, and other grants are tax-free if you meet the following conditions:

- You're a candidate for a degree at an educational institution that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities; and

- The amounts you receive are used to pay for tuition and fees required for enrollment or attendance at the educational institution, or for fees, books, supplies, and equipment required for courses at the educational institution.

Taxable

- You must include in gross income:

- Amounts used for incidental expenses, such as room and board, travel, and optional equipment.

- Amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant. However, you don't need to include in gross income any amounts you receive for services that are required by the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.

Federal Student Aid Handbook

- When classifying non-FSA sources of aid, if a student receives the award because of postsecondary enrollment (for example, a scholarship from a local social club that requires a student to be attending a postsecondary school), it counts as estimated financial assistance (EFA) if it is not considered wages for employment according to federal or state rules, or if it is considered wages and is based on need.

Uniform Guidance, CFR 200.75

- UG 200.75 Participant Support Costs, states they are used for items such as stipends or substance allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

NSF REU/Participant Support Requirements

- III. AWARD INFORMATION An REU activity may be funded as a standard or continuing grant (for REU Sites), as a supplement to an existing award, or as a component of a new or renewal grant or cooperative agreement. REU Sites and Supplements are funded by various disciplinary and education research programs throughout NSF, and the number of awards made varies across the Foundation from year to year, as does the amount of funds invested. In FY2013, NSF anticipates investing approximately $68.4 million (pending availability of funds) in approximately 180 new Site awards and 1,600 new Supplement awards.

- Three years is the typical duration for REU Site awards in most NSF directorates; however, a duration of up to five years may be allowed in some cases. The typical REU Site hosts 8-10 students per year. The typical funding amount is $70,000-$120,000 per year, although NSF does not dictate a firm upper (or lower) limit for the amount, which depends on the number of students hosted and the number of weeks.

- **The REU experience is a research training experience paid via a stipend, not employment (work) paid with a salary or wage.** In this case, the student's training consists of closely mentored independent research. For administrative convenience, organizations may choose to issue payments to REU students using their normal payroll system. The funds received by students may be taxable income under the Internal Revenue Code of 1986 and may also be subject to state or local taxes. Please consult the Internal Revenue Service (IRS) for additional information. Students might find the IRS's "Tax Information for Students" website (https://www.irs.gov/individuals/students/students-page-higher-education) to be particularly helpful.

- https://www.nsf.gov/pubs/2013/nsf13542/nsf13542.pdf (REU Program Solicitation site)

Why does some NSF award solicitations allow for issuing payments through normal payroll systems if it is convenient?

- NSF does allow for entities to process REU payments through a payroll system that is designed to show that the payments are not wage based, but they are instead stipends/fellowships.

- Our payroll system does not allow for distinction between wage payments and stipend payments.

- The only systems we have for properly processing stipend payments are our Financial Aid system for UT students and our vendor system for non-UT students.

Will NSF allow for exceptions to be granted to institutions who process payments through payroll?

- During a recent NSF Grants Conference, the question below was asked:

    Does NSF make any exceptions or allowances for institutions to process Participant Support Payments, Stipends, or Fellowships, through payroll as a wage type payment. The answer was "No, there will be no exceptions to this to due to Federal Regulations."

- It was asked if the process of paying institutional students through Financial Aid and non-institutional students through a vendor system was acceptable? The answer was "Yes." This was further clarified with a statement that NSF would allow for any system to be used that was supported by a written institutional policy, followed consistently, and was not a payroll wage type process.

Steps involved with processing payments.

UT-Student Participants

- Paid through Financial Aid

- Because they are students we must calculate stipend payments into their overall Federal Award allowance.

Non-UT Participants

- Paid through the Vendor System using Workers Classification Form.

- Form has been updated to show they are participants in research activities.

- They don't receive a W-2

- They must report the stipend to their home institution.

Processing UT-Students through Financial Aid

- In order for Departments to process Participant Support Cost Stipends through Financial Aid, the Department will need to complete a "Scholarship Authorization Form" for each individual, each time you plan to disburse funding.

- On the form, Departments will need to indicate the account number to be charged, the students name and ID number, the amount to disburse, and identify the semester.

- Upon receiving the form, staff within Financial Aid will create a fund ID to disburse the funds for the first disbursement. Financial Aid will name the disbursement "name field" a title related to the specific payment reason, unless you supply a preferred title.

- The form is needed each time a payment is requested for processing to an individual.
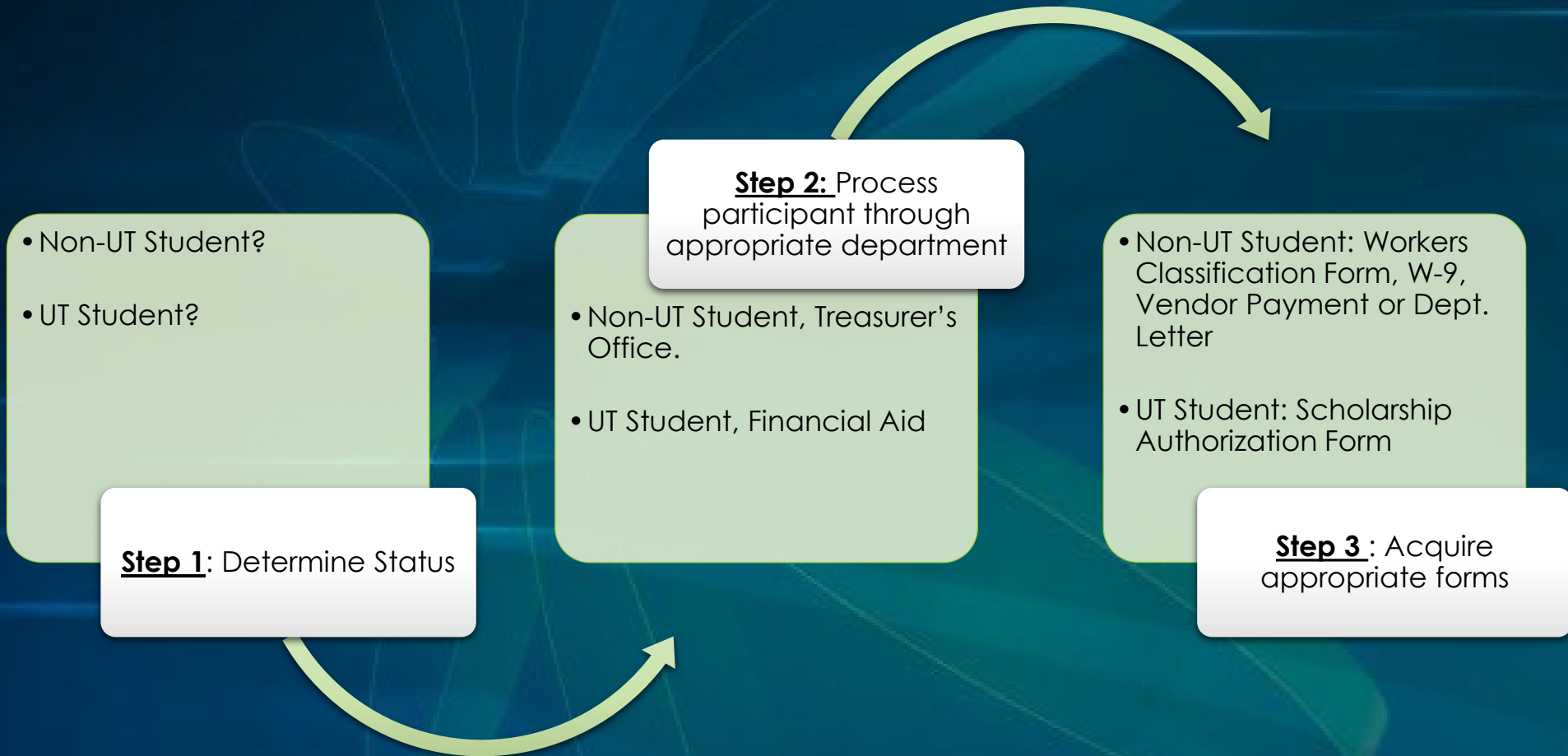
Financial Aid processing cont...

- For the first payment, you should ensure that Financial Aid receives your initial Scholarship Authorization form, for each individual, 10 days prior to the payment date.

- Once each individual has been set up to receive their first payment, the next payment requests will only need to be received by Financial Aid 5 days prior of the payment date.

Processing Non-UT Students as a Vendor

- Departments will obtain a "Workers Classification Form (WCF) from the Treasurer's Office website.

- Provide UT Stipend Letter to participants.

- Fill out the (WCF)with the participant and submit it for processing, along with a W-9 and Vendor Payment Form, or a Departmental letter requesting a payment is needed. (**Make sure each form lists the Participant as Non-taxable)**

- These forms will be submitted through IRIS in order to receive a vendor number for each participant..

- Enter the participant into the IRIS system as a guest.

- Once students are confirmed in IRIS as a guest, they will be eligible for a Vol Card and access to other needed services on campus.

- This also allows the participant to be covered under UT's General Liability Insurance.

Quick Guide for Processing Participants

- Non-UT Student?

- UT Student?

Step 1: Determine Status

Step 2: Process participant through appropriate department

- Non-UT Student, Treasurer's Office.

- UT Student, Financial Aid

- Non-UT Student: Workers Classification Form, W-9, Vendor Payment or Dept. Letter

- UT Student: Scholarship Authorization Form

Step 3 : Acquire appropriate forms

Contacts:

- Financial Aid:
  - - Tim Woods – twoods3@utk.edu
  - Celena Tulloss - ctulloss@utk.edu

- Treasurer's Office:
  - Kelly Rogers - rogersk@tennessee.edu

- Sponsored Projects Accounting:
  - Jay Taylor - vtaylor@utk.edu