



TAXATION OF EDUCATIONAL GRANTS: General Guidelines for Graduate Student Scholarships and Fellowships

If you have further questions about the taxability of the amounts received, please consult your tax advisor.

Beginning January 2003, the University of Arkansas will withhold Federal and state income taxes from non-service scholarships and fellowships paid to international graduate students. This expands the previous practice of withholding tax from fellowships in exchange for services. The taxability of scholarship payments, however, did not change between calendar year 2002 and 2003. The general rules for taxation of fellowship and scholarship payments are summarized below to assist University of Arkansas graduate students in answering the following question:

What portion of scholarships and fellowships received by a U of A graduate student is taxable?

Answer: TAX FREE AMOUNTS: Scholarships and fellowships may be tax free if they meet certain requirements: 1) the recipient must be a part-time or full-time candidate for a degree at an educational institution; 2) the grant is a qualified scholarship or fellowship; and 3) the funds received are used for tuition, fees, books, supplies, and equipment. To qualify, the fees, books, supplies, and equipment must be required by all students in the course.

Answer: TAXABLE AMOUNTS: Scholarship or fellowship funds used for room and board, travel or any other purpose are taxable. Also, scholarships or fellowships received by graduate students in exchange for services, such as teaching or research are taxable.

Additional information, filing requirements, and forms:

Additional information and examples regarding scholarships and fellowships can be found in the Internal Revenue Service Publication 520 available at <http://www.irs.gov/formspubs/>. Taxpayers are required to file a tax return with the Internal Revenue Service if their gross income is \$7,700 (single), \$13,850 (married filing jointly), or \$9,900 (head of household). In addition, a graduate student may want to file a return to request a refund of their income tax withholding if no tax is owed. Federal and Arkansas tax forms can be accessed at <http://www.irs.gov> and http://www.state.ar.us/dfa/taxes/ind_tax/2002_IIT_forms.html, respectively.

Example #1: John is a graduate student (candidate for a Master's degree) at the University of Arkansas. He has received a scholarship and fellowship in the amount of \$6,000 to pursue his education. John has paid for tuition, fees, books, supplies, and equipment required by all students in the program in the amount of \$5,000. With the remaining \$1,000, he has paid for room and board expenses. In this case, \$5,000 of the scholarship and fellowship is tax free and the remaining \$1,000 used to pay for room and board is taxable income.

Example #2: Jason is a graduate student (a doctoral candidate) at the University of Arkansas. He has received a \$10,000 scholarship in exchange for providing services. He is teaching an undergraduate business course and assisting a professor with research. The total amount received of \$10,000 is taxable income and cannot be offset by any tuition, fees, books, supplies, or equipment expenses.

Example #2: Alice is a graduate student (a doctoral candidate) at the University of Arkansas. She has received a \$5,000 scholarship, with \$2,000 specifically designated for tuition and \$3,000 specifically designated for living expenses. Even if she pays a total of \$4,000 for tuition, she will only be able to exclude \$2,000 from income. The \$3,000 designated for living expenses is taxable income.

Worksheet for Scholarship and Fellowship Income From IRS Publication 520

1.	Enter your scholarship or fellowship income	1.	___	
	<ul style="list-style-type: none"> • If you are a degree candidate, go to line 2. • If you are not a degree candidate, stop here. The entire amount is taxable. See <i>Reporting Scholarships and Fellowships</i> for how to report this amount on your tax return. 			
2.	Enter the amount from line 1 that was for teaching, research, or any other services (Do not include amounts received for these items under the National Health Services Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.)	2.	___	
3.	Subtract line 2 from line 1	3.	___	
4.	Enter the amount from line 1 (except any amount entered on line 2) used for tuition and course-related fees, books, supplies, and equipment required for study at an educational institution	4.	___	
5.	Subtract line 4 from line 3	5.	___	
6.	Taxable part. Add line 2 and line 5. See <i>Reporting Scholarships and Fellowships</i> for how to report this amount on your tax return	6.	___	

Other Tax Rules of Interest to Students

Credits

Hope Tax Credit: Graduate students do not qualify for this credit since it relates to qualified expenses for the first two years of a post-secondary education or training.

Lifetime Learning Credit: For graduate students, a per-taxpayer credit of 20% of the first \$5,000 in tuition and fees through 2002 (\$1,000 maximum credit). This amount increases to 20% of the first \$10,000 after 2002 (\$2,000 maximum credit). The credit is phased out for joint filers between \$80,000 and \$100,000 of income, and for single filers between \$40,000 and \$50,000. The credit is claimed on federal Form 8863 and shown on line 48 of Form 1040.

Deductions

Deduction for Certain Qualified Postsecondary Education Expenses: Graduate students may be able to take an “above-the-line” deduction (Form 1040, line 26) for qualified tuition and fees. The deduction is limited to \$3,000 for taxpayers whose adjusted gross income for 2002 or 2003 does not exceed \$65,000. No deduction is allowed if the taxpayer’s adjusted gross income exceeds \$65,000. In addition, no deduction can be taken if the Lifetime Learning Credit is elected.

Student Loan Interest Deduction: Interest paid in the first 60 months of repayment on loans for post-secondary education and training expenses is tax-deductible. It is an “above-the-line” deduction (Form 1040, line 25). The maximum deduction for 2001 and beyond is \$2,500 per year. This benefit is phased out for joint filers with incomes between \$60,000 and \$75,000 and for single filers with incomes between \$40,000 and \$55,000.