

RESEARCH GRANTS

A research grant is a payment made to a nonresident alien that can be used for research performed at other universities. A check request must be submitted with the Foreign National Information form with the required copies of visa documentation.

Work performed in the U.S. is considered "U.S. sourced" and is taxable. Work performed abroad is considered "foreign sourced" and is not taxable. The Office of International Taxation determines whether a tax treaty is applicable.

USAID Grants

Section 1441(c)(6) of the Internal Revenue Code provides that no withholding of Federal income tax is required on grants made to nonresident alien students and trainees, which originate from funds provided by the U.S. Agency for International Development (USAID) to the extent that such grants consist of "amounts of per Diem for subsistence." Any amount of the grant that exceeds a reasonable amount dedicated to subsistence (food and lodging), or any amount of the grant that is dedicated to something other than subsistence, is subject to withholding of Federal income tax. A reasonable amount dedicated to subsistence is usually measured with reference to the U.S. Government per diem rates in effect with respect to each locality in the United States.

Non-Degree Students

The entire grant is includible in the gross income of the recipient and is subject to withholding.

Post-Doctoral Students

The IRS does not consider post-docs to be candidates for a degree for purposes of Section 117 qualified fellowship rules for tuition and related fees. Therefore, the fellowship would be non-qualified (i.e. taxable.) The grant is entirely includible in the gross income of the nonresident alien recipient and, as such, is subject to withholding.

Resident Aliens

Under IRS Notice 87-31, there is no withholding and reporting on taxable scholarships and fellowships paid to or on behalf of U.S. citizens and resident aliens. That does not mean the amounts are not subject to tax. The recipient is required to record the taxable grants on their Form 1040 tax return if their total income including the grants exceeds the threshold amount for tax return filing purposes.

Section 1441 regulations allow for the full personal exemption amount to offset a recipient's taxable scholarship as long as the recipient does not also have taxable wages. The regulations apply to recipients in F, J, M or Q status because other recipients are not allowed by the tax code to treat their scholarships as effectively connected income taxable on a net basis (page 1 of Form 1040NR and 1040NR-EZ.) Rather their taxable scholarships are taxed on a gross basis at 30% (page 4 of Form 1040NR.) A tax ID number or a W-4 is required for the personal exemption withholding allowance offset for taxable scholarships. The taxable scholarship recipients should submit a 1040NR-EZ to obtain the benefit of the personal exemption on their tax returns.