

GENERAL RULES ON TAXATION OF SCHOLARSHIPS & FELLOWSHIPS

Taxable Scholarships and Fellowships

If you received a ***scholarship or fellowship***, all or part of it may be taxable, even if you did not receive a Form W-2. Generally, the entire amount is taxable if you are not a candidate for a degree.

If you are a candidate for a degree, you generally can exclude from income that part of the grant used for:

- ***Tuition and fees*** required for enrollment or attendance, or
- ***Fees, books, supplies, and equipment*** required for your courses.

You **cannot exclude** from income any part of the grant used for other purposes, such as **room and board**.

A ***scholarship*** generally is an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be in either a graduate or an undergraduate program.

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

Example 1

Tammy Graves receives a \$6,000 fellowship grant that is not designated for any specific use. Tammy is a degree candidate. She spends \$5,500 for tuition and \$500 for her personal expenses. Tammy is required to include \$500 in income.

Example 2

Ursula Harris, a degree candidate, receives a \$2,000 scholarship, with \$1,000 specifically designated for tuition and \$1,000 specifically designated for living

expenses. Her tuition is \$1,600. She may exclude \$1,000 from income, but the other \$1,000 designated for living expenses is taxable and must be included in income.

Payment for Services

All payments you receive for past, present, or future services must be included in income. This is true even if the services are a condition of receiving the grant or are required of all candidates for the degree.

Example

Gary Thomas receives a scholarship of \$2,500 for the spring semester. As a condition of receiving the scholarship, he must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for his services. Gary is a degree candidate, and his tuition is \$1,600. He can exclude \$1,500 from income as a qualified scholarship. The remaining \$1,000, representing payment for his services, is taxable.

Fulbright Students and Researchers

A Fulbright grant is generally treated as any other scholarship or fellowship in figuring how much of the grant can be excluded. If you receive a Fulbright grant for lecturing or teaching, it is payment for services and subject to tax.

Pell Grants, Supplemental Educational Opportunity Grants, and Grants to States for State Student Incentives. These grants are nontaxable scholarships to the extent used for tuition and course-related expenses during the grant period.

Reduced Tuition

You may be entitled to reduced tuition because you or one of your parents is or was an employee of the school. If so, the amount of the reduction is not taxable so long as the tuition is **for education below the graduate level**. (But see Graduate student exception, next.) The reduced tuition program must not favor

any highly paid employee. The reduced tuition is taxable if it represents payment for your services.

Graduate Student Exception

Tax-free treatment of reduced tuition can also apply to a graduate student who performs teaching or research activities at an educational institution. The qualified tuition reduction must be for education furnished by that institution and not represent payment for services.

How To Report

If you file Form 1040EZ, include the taxable amount of your scholarship or fellowship on line 1. Print "SCH" and any taxable amount not reported on a W-2 form in the space to the right of the words "W-2 form(s)" on line 1.

If you file Form 1040A or Form 1040, include the taxable amount on line 7. Print "SCH" and any taxable amount not reported on a W-2 form in the space to the left of line 7 on Form 1040A or on the dotted line next to line 7 on Form 1040.