

OFFICE OF THE CONTROLLER

Tax Team

Nonqualified Scholarships – Tax Implications for
International Students

August 2024





Table of Contents

Definitions and Taxability	3
Administrative Considerations	9
Departmental Responsibility	13
Resources	15



Definitions and Taxability



UNIVERSITY OF
South Carolina

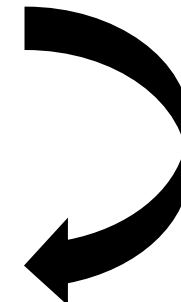
Scholarships – Definitions



Qualified Scholarships: The portion of a scholarship used to pay qualified education expenses.

Qualified Education Expenses: Tuition and fees required by all students to enroll at or attend an eligible education institution and course-related expenses, such as fees, book, supplies, and equipment that are required for the course.

Nonqualified Scholarships: The portion of a scholarship used to pay nonqualified education expenses.



Nonqualified Education Expenses: Expenses that are not required to enroll at or attend an eligible education institution, such as room and board, meal plans, parking permits, fines, travel, and supplies and equipment not required for the course.

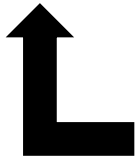


Scholarships – Taxability

Qualified Scholarships: Non-taxable

Nonqualified Scholarships: Taxable

Note: Students will receive an annual Form 1098-T from the Bursar's Office. In general, if Scholarships/Grants (Box 5) exceed Qualified Expenses (Box 1), the excess amount should be reported on Line 1a of the student's Form 1040.



U.S. Citizens and Resident Aliens: Taxable but not reportable. Tax is not withheld on the income upfront, and the student will not receive a Form 1099. Students are responsible for contacting their personal tax advisor regarding self-reporting and tax consequences.

Foreign Nationals (Nonresident Aliens): Taxable and reportable per IRS requirements. Payments made to foreign national individuals are generally required to be reported to the IRS. Students will receive an annual tax statement (Form 1042-S) for reporting purposes by March 15th for the preceding calendar year.



Federal Tax Withholding

- In general, IRS regulations state that 30% tax is withheld from payments made to foreign national individuals.
- A foreign national individual's visa type impacts the taxability of scholarships. The tax rate for nonresident alien students, researchers, or grantees temporarily present in the U.S. with an F, J, M, or Q visa would be reduced from 30% to 14%.
- The tax withholding could then be further reduced to 0% (fully exempt) if an applicable tax treaty exists between the United States and the foreign national individual's home country.



Federal Tax Withholding

- **A tax treaty benefit cannot be granted unless the foreign national individual has a U.S. Social Security Number.**
- Refer to the [Payments to Foreign Nationals Matrix](#) for basic visa classification information.
- Specific questions regarding visa types should be directed to International Student and Scholar Support.



Nonqualified Scholarships – Example

Lin, a foreign national individual from China, received a total of \$10,000 in scholarships for the fall semester. Based on the education expenses below, how much of the scholarship is subject to tax?

Fall Education Expenses

- Tuition: \$ 5,000
- Technology fee: \$ 200
- Health fee: \$ 150
- Required books: \$ 1,000
- Room and board: \$ 3,000

Total: \$ 9,350

\$ 10,000 Scholarship
Less: \$ 6,350 Qualified Expenses
**\$ 3,650 Nonqualified
scholarship subject to tax**

Lin is studying at USC on a F-1 visa, which would warrant a reduced 14% tax withholding rate on the nonqualified scholarship. In addition, China has a tax treaty with the U.S. that permits a reduced tax withholding rate of 0%. Lin will likely benefit from this reduction if she has a U.S. Social Security Number.



Administrative Considerations



UNIVERSITY OF
South Carolina

Tax Withholding Calculation and Payment

When a scholarship, fellowship, or grant is awarded to an international student, the gross amount of the award is posted to the student's account, at which time the full award will be available to the student.

After the final drop date each semester (fall, spring, and summer), the Controller's Office Tax Team completes various analyses to calculate applicable tax withholdings for international student scholarship recipients.

Taxes are then paid directly to the IRS by the Controller's Office Tax Team, with a recoupment of the amount occurring through issuance of a tax bill to the student.



Filing Requirements

- Most international students are required to file annual tax returns, both federal and state, to fulfill visa obligations.
- If income was received, the student will likely be required to file Form 8843 and Form 1040-NR.
- International students may qualify for a tax refund.
- It is the responsibility of each international student to comply with U.S. tax regulations.



Tax Team Limitations

The Controller's Office Tax Team strives to be a meaningful resource to the University community, including to our international students. However, it is important to note the following constraints that apply to our team:

CAN assist with:

- Questions about payments issued, tax forms, and tax treaties.
- Referencing applicable guidance/regulations.

CANNOT assist with:

- Completing any tax forms.
- Providing tax advice.
- Providing expertise regarding immigration documentation.



Departmental Responsibility



UNIVERSITY OF
South Carolina

Departmental Responsibility

- The Controller's Office Tax Team is made aware of international student scholarships after-the-fact.
- Departments should communicate potential tax implications to students when applicable scholarships, fellowships, and grants are awarded.
- Students should be afforded the opportunity to plan for any tax implications, as to avoid the "shock factor" of a mid-semester tax bill.
- Nonpayment of existing tax bills could prevent the student from registering from future courses.



Resources



UNIVERSITY OF
South Carolina

Available Resources

- [IRS Guidance – Withholding Federal Income Tax on Scholarships, Fellowships, and Grants Paid to Aliens](#)
- [IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities](#)
- [IRS Publication 519, U.S. Tax Guide for Aliens](#)
- [IRS Publication 901, U.S. Tax Treaties](#)
- [Form 1098-T](#)
- [Form 1042-S](#)
- [Form 8843](#)
- [Form 1040-NR](#)
- [Payments to Foreign Nationals Matrix](#)



Questions

Contact:

Tax Team

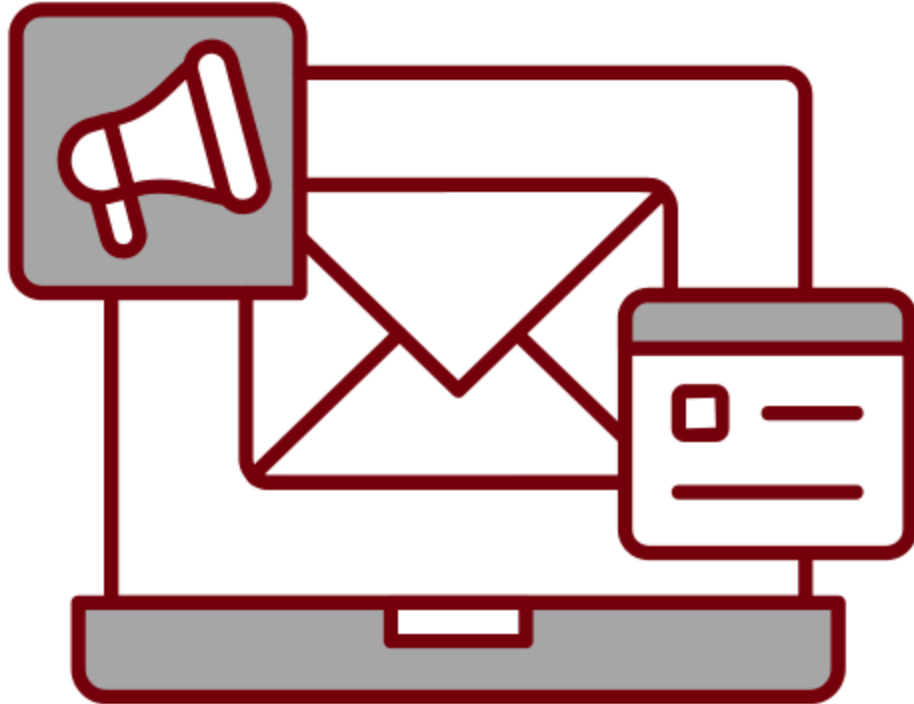
tax@mailbox.sc.edu

- Lindsey Cox – Director of Compliance and Tax
- Douglas Bailey – Assistant Director of Tax
- Shannon Nickens – Senior Compliance and Tax Accountant
- Kadejah Bethea – Senior Compliance and Tax Accountant



UNIVERSITY OF
South Carolina

Contact Us



For specific questions, please visit our [website](#) to find the appropriate contact.



UNIVERSITY OF
South Carolina

Questions



UNIVERSITY OF
South Carolina

THANK YOU!

Office of the Controller



Alone, we can do so little; together,
we can do so much.



Address:

1600 Hampton Street
Columbia, SC 29208



Contact Number:

Phone: 803-777-2602
Fax: 803-777-9586



Email Address:

controller@sc.edu



UNIVERSITY OF
South Carolina



UNIVERSITY OF
South Carolina