



The GRADUATE SCHOOL

DATE: February 22, 2006
TO: Graduate Program Chairs, Staff Assistants, Faculty and Graduate Students
FROM: Regina Vasilatos-Younken, Senior Associate Dean
SUBJECT: Discontinuation of "Tax Letters"

Each year, as the time for filing tax returns approaches, questions arise regarding how assistantships and fellowships are treated in terms of tax liability, reporting obligations, etc. Keeping in mind the overriding advice that graduate students, as anyone, should seek the advice of a qualified tax consultant, the following information may be helpful in clarifying how the University handles these different financial entities and the basis for why these differ. Please feel free to share this information with graduate students, faculty and other program personnel who advise your students.

A fellowship recipient is not a University employee. Accordingly, the University has no obligation to (and does not) withhold tax on fellowship awards, or report these awards to Federal (IRS), state or local taxing authorities. Because fellowship amounts are not reported to taxing authorities, nor have taxes been withheld, units have no reason to complete "Tax Letters" for fellowship recipients as they may have in the past for graduate assistants (GAs). Therefore, the University no longer permits the issuance of Tax Letters. Please note that even though the University does not report on or withhold tax from fellowships, recipients may be liable for taxes on any amount of such awards not used for payment of tuition, fees or other qualified education expenses. In order to assist fellowship recipients with their tax returns, the Payroll Office reports to them the amount of their fellowship payments received during the year. However, as indicated above, taxes are not withheld nor are Fellowship amounts reported, and therefore the University no longer permits the issuance of Tax Letters.

Alternatively, graduate assistant (GA) stipends are wages for federal tax purposes and subject to tax reporting and withholding. However, for PA state and local tax purposes, GA stipends are only taxable when the GA must perform duties beyond those required of all degree candidates in their program. In the past, Tax Letters were prepared for GAs, in order to assist them in obtaining a refund of PA taxes withheld on their GA stipend, given that the University treated all GA stipends as subject to PA tax. Now, PA tax is correctly not withheld on non-taxable GA stipends (i.e., when the GA performs no services beyond those required of all other students in the program, as indicated in the GA appointment form). Thus, the University no longer has reason to issue Tax Letters, given that the appropriate PA tax withholding is applied to each GA paycheck. Therefore, as indicated above, the University no longer permits the issuance of Tax Letters.

International Taxes:

Federal regulations mandate withholding International Taxes for foreign students who receive any assistance in excess of tuition and fees. The Student Loans & Scholarships Office is responsible for withholding these taxes. The tax rate is 14%. As an **example**:

Tuition + Fees: \$5,000

Tuition Provided by
Assistantship/Fellowship: \$4,790 (Tuition portion only. Stipends are processed through
Payroll)

Additional Scholarships: \$1,000.00

Amount Subject to
International Taxes: $(\$4,790.00 + \$1,000.00) - (\$5,000) = \790.00

Tax Liability: $\$790 \times 14\% = \110.60

However, foreign students from certain countries may qualify for an exemption to this withholding if they are citizens of a country that have a tax treaty with the United States ... complete form W-8BEN and submit it to the Student Loans & Scholarships Office.

For further information, please refer your students to: <http://www.studentloans.psu.edu/tax.cfm>

Again, to determine an individual graduate student's tax liability, he/she should consult a qualified tax consultant; however, the above may be helpful in providing some guidance and clarifications.

For any questions related to the above, please contact the Office of Graduate Fellowships and Awards Administration; 313 Kern Graduate Building; 863-2514.