

Changes in Graduate Student Payments

Effective January 1, 2017

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Past Practice

- All graduate support other than tuition, regardless of job code, was in the form of a stipend with taxes withheld.
- Students engaged in a wide variety of different activities within these codes.



Why It's Changing

We need to better distinguish between graduate student activities being performed.

There are several reasons for this:

- **The Affordable Care Act (ACA):** This act requires that we track hours for employee health care eligibility, which could include graduate students.
- **The Federal Labor Standards Act (FLSA):** This act requires that we distinguish between hourly and salaried employees. There are several considerations, including whether an employee is teaching.
- **Taxable Income:** The University must correctly withhold (or not) depending on the type of payment received by graduate students.
- **Effort Certification for Grant Reporting:** The University must ensure that appropriate documentation exists for sponsored project expenditures.

The requirements of these various laws and regulations can be contradictory and are certainly confusing.



New Graduate Job Categories at a Glance



Summary of Graduate Student Appointments

Appointment Description	HRMS Job Code
Graduate Fellowship/Stipend	6000 (Visiting student – 6001)
Graduate Assistantship	6002 (Visiting student – 6003)
GA Add-On	6004 (Visiting student – 6005)
TA Add-On	6006

Ask your department to determine the job code associated with your appointment.



Tax Changes with New Graduate Job Categories



What Hasn't Changed

- Graduate student financial support is processed through payroll
 - Fellowships/Assistantships (semi-monthly) – job codes 6000, 6002
 - Graduate/Teaching assistant add-ons (bi-weekly hourly / semi-monthly) – job codes 6004, 6006
- For **U.S. citizens, permanent residents and resident aliens for tax purposes**, graduate fellowships/assistantships are generally taxable income.
- For **non-resident aliens for tax purposes**, withholding depends on whether your country of residence has a tax treaty with the U.S. and your completion and submission of the necessary paperwork to the Payroll office
 - Must update Glacier record
 - Generally, must submit Tax Summary and Forms W-8 BEN and/or Form 8233 to Payroll office.



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- Effective for the 2017 calendar year, the University will no longer issue you a W-2 reporting fellowships/assistantships (job codes 6000, 6002) as Box 1 wage income. Due to the University's reexamination of the different types of graduate funding and the legal requirements imposed by the ACA and the FLSA, the University considers fellowships/assistantships coded as 6000 and 6002 as for your educational benefit (whether that fulfills research or teaching requirements for your degree) and not compensation for services.
- The IRS provides that amounts received as fellowships/assistantships are not required to be reported as wages on a W-2 or as income on a 1099. However, these amounts are taxable income if used for **nonqualified** expenditures.
- Because these fellowships/assistantships are not considered wages, beginning January 1, 2017, fellowships/assistantships (job codes 6000, 6002) will no longer be subject to income tax withholding.
- **Because of this change in withholding, it may be necessary to file estimated quarterly tax payments.**



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- Fellowships/assistantships are not taxable if used for qualified expenditures.
 - **Qualified** expenditures – candidate for degree and amount used for tuition, required fees, books, supplies and equipment required for courses
- Fellowships/assistantships are taxable if used for non-qualified expenditures.
 - **Nonqualified** expenditures – amounts used for room, board, travel, equipment, living expenses not required as part of education
- Any tuition support that you are receiving is in addition to your 6000/6002 fellowship/assistantship position (and would already be considered a qualified nontaxable expense).
- You will receive a letter from the University in January 2018 which provides your total fellowships/assistantships for the 2017 calendar year.
 - Letter is for informational purposes and is not required to be filed with the IRS or NYS Dept of Tax when you file your 2017 tax return
 - Letter should be saved and kept as support for taxable amount of fellowship/assistantship that you report on your 2017 tax return



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

▪ **Example**

Scott is a masters degree candidate receiving 100% tuition support from the University. In addition, he was awarded a fellowship (6000 job code) of \$10,000 for the 2017 spring and fall semesters. How much of the \$20,000 is taxable?

\$20,000

Less \$1,500 (cost of books, equipment required for his 2017 classes)

\$18,500 - should be reported as income on Scott's 2017 tax return

** To support this amount on his 2017 return, Scott should keep his fellowship letter from the University, receipts, and course information (e.g., syllabus) that lists required books/equipment.



What Hasn't Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- You will still receive a W-2 to report wages earned as a Graduate/Teaching Assistant add-on (bi-weekly hourly / semi-monthly) – job codes 6004, 6006 – or any other employment position (e.g., through SEO).
 - Federal and NY state taxes are withheld if you have a 6004 or 6006 position or a SEO job.



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- Because fellowships/assistantships (job codes 6000,6002) used for nonqualified expenditures are taxable income but not subject to withholding by the University, you **may** be subject to an **estimated tax penalty** (from the IRS or NYS Dept of Tax) when you file your 2017 tax return in 2018 **if** you do **not** pay enough tax to the IRS and NYS **during** the 2017 calendar year.
- IRS and NYS calculate the estimated tax penalty based on whether you paid in enough tax by certain defined quarterly dates during the 2017 year. The first due date in 2017 for paying estimated taxes is **April 18, 2017** (25% of estimated 2017 tax must be paid). Then, June 15, 2017 (50%), September 15, 2017 (75%), and January 16, 2018 (100%). You are always allowed to “pre-pay” the entire year estimate (100%) by the first quarterly payment due date of April 18, 2017. Otherwise, pay in equal installments.



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- You are subject to a penalty for not making 2017 **quarterly estimated tax payments** to the IRS **if:**
 1. You expect to owe \$1,000 (\$300 for NY) or more in tax when you file your 2017 return in 2018 (after subtracting withholding that you had, overpayments from the prior year, and any estimated taxes that you made), **AND**
 2. You expect your withholding to be less than the smaller of:
 - a. 90% of the tax on your 2017 return, or
 - b. 100% of the tax on your 2016 return.
 - Safe Harbor – In 2017 for 2017 estimated tax payments, pay the tax (Form 1040, Line 44) on your 2016 return equally over the 4 quarterly payment dates (or all up front).



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- How much tax you need to pay to the IRS and NYS in 2017 in estimated tax payments depends on your total estimated taxable income and tax for 2017
- Your total taxable income and tax depends on your personal tax situation.
- Factors in determining IRS and NYS total income tax vary by person and could depend on:
 - Filing status (Single, Married, Head of Household)?
 - Can you be claimed as a dependent on another persons' tax return?
 - Can you claim dependents on your tax return?
 - Do you have taxable income from sources outside of the University?
 - Off-campus job?
 - Interest/dividend/capital gain income?



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- How to make estimated quarterly tax payments
 1. Credit Overpayment from Your 2016 Tax Return to Your 2017 Estimated Tax (see Line 77 on 2016 Form 1040)
 2. **Mail Your Payment (check or money order) with Payment Voucher (see 2017 Form 1040-ES, Vouchers 1-4)**
 - ❖ **You need separate payments and payment vouchers for the IRS and for NYS**
 3. Pay by Phone or On-line (fee for this)
 4. Pay via Electronic Funds Withdrawal at time you file your 2016 return (Only available through commercial software, a paid preparer, or IRS Free File when you e-file your 2016 tax return and at the same time submit an EFW payment request.)



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- Resources for Calculating Quarterly Estimated Tax Payments
 - Refer to IRS and NYS Estimate Tax Payment Forms listed below (which include explanation of how to estimate quarterly amounts owed)
 - Federal – [IRS Form 1040-ES](#)
 - New York – [NY Form IT-2105](#)
 - [IRS Publication 505 \(Tax Withholding and Estimated Tax\)](#)
(IRS only has version for 2016 available at this time. Version for 2017 should be available in March.)



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

▪ **Example**

Jamie has a 6002 assistantship for \$12,500 for each of the 2017 spring and fall semesters and no withholding. She has no qualified expenditures other than tuition (which is offset directly by the University separate from the assistantship). She does not have a job with UR or elsewhere. For 2017, she also expects to receive \$350 in taxable interest income. Jamie files single, no dependents, and can't be claimed as a dependent on someone else's return. Jamie's 2016 Form 1040 reported tax (Form 1040, Line 44) of \$1,500.

Calculating 2017 taxable income for estimated tax purposes – $\$25,000 + \$350 - \$6,350$
(standard deduction for 2017) - $\$4,050$ (exemption for 2017) = $\$14,950$

Calculating 2017 estimated tax = $\$1,776$

Lesser of :

90% of 2017 estimated tax = $\$1,598$

100% of 2016 tax = $\$1,500$ – since this is more than $\$1,000$ and no withholding – need to make quarterly payments of $\$1,500/4 = \375 per quarter for IRS



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- Making Additional Tax Payments during the Year via Extra Withholding
 - If you also have a Graduate/Teaching Assistant add-on (bi-weekly hourly / semi-monthly) – job codes 6004, 6006 – OR any other employment position through SEO, you can request additional withholding (IRS or NYS) on the wages that you receive from these positions.
 - Need to update your IRS Form W-4 (complete Line 6) or NYS Form IT-2104 (complete Line 3) for extra withholding.
 - **NEED TO COMPLETE A NEW FORM W-4 / IT-2014 IF YOU NO LONGER WANT ADDITIONAL AMOUNTS WITHHELD.**



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- **Example** – Graduate student with fellowship (job code 6000) for \$5,200 for 2017 Spring Semester. Also has Add-on Teaching Appointment (job code 6006) for \$2,500 for the Spring Semester.
 - Estimated taxes (for 2017) on fellowship income – How to Pay?
 - 2016 Tax Return filed? If no, still have time to apply refund from 2016 to 2017 estimated taxes.
 - Quarterly Tax Payments – 1st Quarter Due April 18, 2017
 - How Much?
 - Assume 2016 Tax Liability was \$3,500. If pay \$3,500 for 2017, safe harbor.
 - $\$3,500/4 = \875 per quarter
 - Reduce quarterly payments by expected tax withholdings for the quarter.
 - Request additional withholding on 6006 position



What Has Changed - U.S. Citizens, Permanent Residents and Resident Aliens for Tax Purposes

- How to Report Fellowship/Assistantship Income on Your 2017 Tax Return
 - If filing Form 1040, Form 1040A or Form 1040EZ, enter “SCH = \$(TAXABLE AMOUNT)” in the space to the left of the “Wages, salaries, tips” line of your tax return.
 - “Wages, salaries, tips” line of your tax return should include:
 - Amounts from Box 1 of your W-2s plus
 - Taxable scholarships/fellowship amounts received (total amounts less any amounts used for qualified expenditures)



What Has Changed – Non-Resident Aliens for Tax Purposes

- For **non-resident aliens for tax purposes**, withholding for Fellowships/Assistantships (semi-monthly) – job codes 6000, 6002 depends on whether your country of residence has a tax treaty with the U.S. for scholarships/fellowships and your completion and submission of the necessary paperwork to the Payroll office
 - Must update Glacier record
 - Generally, must submit Tax Summary and Form W-8 BEN and/or Form 8233 to Payroll office.
 - As was the case before, tax withholding will occur if required (no tax treaty benefit OR paperwork not turned in).
 - Due to all of the job code changes, there was a delay on required tax withholding (to accommodate for late paperwork). All required withholdings resumed on January 31, 2017, but you may still see adjustments due to late paperwork.



Changes Applying to Visiting Graduate Student Appointments

- Beginning January 1, 2017, Fellowships/Assistantships (semi-monthly) – job codes 6001, 6003 – will no longer be subject to income tax withholding.
 - The University will no longer report Fellowships/Assistantships to the Internal Revenue Service (IRS) – you will not receive a W-2 or a 1099 for these amounts – but still taxable.
 - You will receive a letter in January 2018 which provides your total fellowship/assistantships for the 2017 calendar year.
- You will still receive a W-2 to report wages earned as a Graduate Assistant add-on (bi-weekly hourly) – job code 6005 – or any other employment position (e.g., through SEO).
 - Federal and NY state taxes and FICA (OASDI and Medicare) taxes are withheld if you have a 6005 position.



Resources

- **University of Rochester Graduate Student Tax Information for 2017 Tax Year**
- **IRS Publication 970 – Tax Benefits for Education:**
<https://www.irs.gov/pub/irs-pdf/p970.pdf>
- **IRS Publication 505 – Tax Withholding and Estimated Tax (for 2016, 2017 not available yet):**
<https://www.irs.gov/pub/irs-pdf/p505.pdf>
- **IRS Form 1040-ES (Quarterly Tax Payments):**
<https://www.irs.gov/pub/irs-pdf/f1040es.pdf>
- **NYS Form IT-2105 (Quarterly Tax Payments) and Instructions:**
https://www.tax.ny.gov/pdf/current_forms/it/it2105_fill_in.pdf
https://www.tax.ny.gov/pdf/current_forms/it/it2105i.pdf

