

Nonresident Alien Taxation: Scholarships

The following is from the IRS website at <https://www.irs.gov/individuals/international-taxpayers/federal-income-tax-withholding-and-reporting-on-other-kinds-of-us-source-income-paid-to-nonresident-aliens>

Scholarships/Fellowships

U.S. source scholarships/fellowships are reportable only for amounts which are taxable. The taxable portion of a scholarship/fellowship is that portion which is not excludible from gross income as a **"qualified scholarship"** under IRC section 117 (see definition below). Withhold at 14% if the payee is in F, J, M, or Q nonimmigrant status. Withhold at 30% for payees in other nonimmigrant statuses. The student articles of some income tax treaties exempt scholarships/fellowships from U.S. income tax. (See Table 2 in IRS Publication 515 or 901.) The beneficial owner may claim the lesser tax treaty rate by filing Form W-8BEN with the withholding agent. The withholding agent will report the payment on Forms 1042 and 1042-S, even if the entire amount is exempt under a tax treaty.

The following is from the IRS Tax Benefits for Education web page at <https://www.irs.gov/newsroom/tax-benefits-for-education-information-center>

A **qualified scholarship** is a scholarship that is used to pay for qualified educational expenses.

Qualified Education Expenses

For purposes of tax-free scholarships and fellowships, these are expenses for:

- Tuition and fees required to enroll at or attend an eligible educational institution.
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

However, in order for these to be qualified education expenses, the terms of the scholarship or fellowship cannot require that it be used for other purposes, such as room and board, or specify that it cannot be used for tuition or course-related expenses.

Expenses that Don't Qualify

Qualified education expenses do not include the cost of:

- Room and board.
- Insurance.
- Travel.
- Research.
- Clerical help.
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution.

This is true even if the fee must be paid to the institution as a condition of enrollment or attendance. Scholarship or fellowship amounts used to pay these costs are taxable.

Students will find more information on the IRS web page devoted to taxation of foreign students and scholars at:

<https://www.irs.gov/individuals/international-taxpayers/foreign-students-scholars-teachers-researchers-and-exchange-visitors>