



## Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows

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### Policy Statement

Per the IRS, a fellowship is an amount paid to or allowed for the benefit of an individual to aid in the pursuit of that individual's own study or research. At Harvard, we use the term "fellowships" to refer to a host of payments: awards, stipends, grants, and allowances. Fellowships are generally gross income to the recipient, unless they are qualified payments for required tuition and fees for a degree program.

Generally, student and non-employee postdoc/fellow travel or other expenses are assumed to be fellowship payments. However, when students and non-employee postdocs/fellows incur expenses in direct support of University research or scholarship as described in this policy, they may be reimbursed for business travel and other expenses. **This policy is intended to clarify when payments to fellows should be treated as gross income, as qualified payments for tuition or fees for a degree program, or as reimbursements for bona fide University business expenses that the individual incurred on Harvard's behalf.**

Additionally, all payments made from sponsored awards, including fellowship awards or training grants, must comply with the terms and conditions of the award agreement.

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### Reason for Policy

Harvard has an obligation to treat fellowship payments appropriately, as well as to reimburse all faculty, staff, non-employee postdocs/fellows, and students for costs incurred on its behalf.

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### Who Must Comply

All Harvard University schools, tubs, local units, Affiliate Institutions, Allied Institutions and University-wide Initiatives must comply.

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### Procedures

#### 1. Understand relevant IRS definitions:

- A. **Fellowship:** A fellowship payment is money or other value (like plane tickets or other travel expenses) paid to or allowed on behalf of an individual to aid that individual in his or her personal scholarship. Fellowships include but are not limited to payments made to students, non-employee postdocs, teaching fellows, and visiting scholars.
- B. **Gross Income:** Gross income to an individual is required to be reported on his or her personal income tax return. Whether or not the individual will owe taxes on that gross income depends on many factors, including the total amount of gross income from all sources, deductions, and withholdings. Every single time Harvard transfers money or other value to someone, *even to reimburse that person for an expense*, it is considered gross income to the recipient unless there is an applicable exclusion; for example, payment of business travel expenses are considered gross income unless the expenses meet the IRS Accountable Plan criteria as outlined in the University's Travel Policy.



# HARVARD UNIVERSITY FINANCIAL POLICY

Responsible Office: Financial Policy Office  
Date First Effective: 1/1/2015  
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- C. Withholdings:** On certain payments, the IRS requires Harvard to take out an amount for taxes up front. Depending on the individual's personal tax circumstances, some or all of the withholdings may be returned when the personal income tax return is filed.
  - D. Business expense reimbursement:** A type of payment that is excluded from a recipient's gross income. To qualify as a University business expense reimbursement, a payment must comply with this policy, the Travel Policy, and the Business Expense Reimbursement Policy.
  - E. Prizes:** Amounts awarded in recognition of a past service or accomplishment, like earning the highest GPA or winning a business plan competition. Prizes always represent gross income to the recipient.
- 2. Required course costs** (qualified payments): payments may be excluded from gross income if the recipient is a candidate for a degree, **and**:
- A.** The payment is for tuition and fees required for enrollment or attendance at an educational institution, and fees, books, supplies, and equipment *required* for courses of instruction. (It is recommended to pay qualified fellowships by applying the payment directly to a student's term bill.)
  - B.** The payment or reimbursement is by Harvard for travel expenses or other Harvard course-related expenses, where such expenses are necessary in delivering the Harvard course and are budgeted as part of the course cost. In this case, the recipient is a pass through for the payment of a Harvard business expense.
- 3. Other business expense reimbursements:** research expenses incurred by a student or non-employee postdoc may be reimbursed as University business expenses if a faculty member or another authorized Harvard employee determines that the expenses are in **direct support** of University research or scholarship and therefore constitute a legitimate Harvard business expense. This often arises in the context of "institutional allowances" or "trainee-related expenses" on sponsored awards.
- A.** Direct support: Characterizing an expense as direct support requires a business judgment by the faculty member or another University employee that the particular expense is appropriate to reimburse because it is anticipated that payment of the expense assists in advancing University research or scholarship.
  - B.** Characteristics of expenses in direct support of University research or scholarship:

    - a. The expense is appropriate to charge to a faculty member's grant funds or to other departmental research funds; or
    - b. Expenses are incurred in the course of activity where the purpose and original intent is for the University to obtain useful results from the project/research; or
    - c. Expenses are incurred in the course of activity where results or research will be used by the University; or
    - d. Expenses are incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI.



- C. Examples of expenses in direct support of University research or scholarship:
- a. A graduate student uses a portion of the institutional allowance on her grant on gene sequencing services related to her research. This research is in direct support of her faculty mentor's research project.
  - b. A student incurs travel expenses while traveling to California to present at a conference, where the student's and mentor's names are published (poster, website, brochure) as a presenter/contributor at the conference.
  - c. A postdoc incurs travel expenses while traveling to New York to attend a conference and is expected to gain scholarly information to be shared with Harvard colleagues.
  - d. A student incurs travel and other research expenses while traveling to Brazil to perform research, which happens to be the topic of her dissertation. The student's research is expected to yield information important to a Harvard PI's research project.
  - e. A postdoc incurs research expenses while conducting experiments in a field of study supported by a Harvard department.
- D. Documentation and approval: **as with all University business expense reimbursements, a Harvard employee must determine that the expenses constitute a legitimate Harvard business expense; and pre-authorization is strongly encouraged.** Faculty approval of the Nonemployee Reimbursement Request is also encouraged; however, other Harvard employees **who can themselves attest** to the appropriateness of the reimbursement are acceptable signatories. Departments may wish to use the optional Student/Non-employee Postdoc Expense Certification form attached as Appendix B. Examples of required documentation:
- a. Attending a conference, field site, or off-campus laboratory to perform services for Harvard: along with appropriate receipts, the department should submit to Travel & Reimbursement a business purpose certifying that the attendance is to officially represent Harvard or to gain information directly related to University research which will be relayed to others within the University. Example: "E. Farrell attending AMA conference on behalf of Johnson Lab, New York, 12/14/2014."
  - b. Speaking/presenting a paper, poster, or serving on a panel on Harvard's behalf: along with appropriate receipts, the department should send to Travel & Reimbursement a business purpose indicating that the traveler is a speaker/ presenter. Example: "J. Smith presenting on behalf of Professor Jones at 2014 APA conference, Chicago 9/28/2014."
- E. Computer equipment, software, and other supplies:
- a. Out of pocket expenses: generally, purchases of computer equipment, software, and other supplies for University business should be made through the University's existing procurement mechanisms. However, in extenuating circumstances, purchases of items to be used for University business (e.g., a postdoc purchases urgently-needed supplies for a PI's use in a lab) may be reimbursed. Such purchased items are property of the University and are subject to all applicable policies and requirements. Required documentation: along with appropriate receipts, the department should submit to Travel & Reimbursement a Non-employee Reimbursement Request with a business purpose certifying that the supplies are to be used in direct support of Harvard research or scholarship. Example: "Non-employee reimbursement: expenses for supplies used in



direct support of Professor Ruiz's research, 11/27/2014."

- b. Use of general Harvard supplies: typically, the use of shared general office/lab supplies by a fellow is considered incidental and does not constitute a fellowship. Note that equipment or other significant purchases that will not be used in direct support of Harvard research should be reviewed for treatment as a fellowship payment; in such cases a third-party payment may be required. See the Fellowships Toolkit for more information.
- 4. Fellowships:** payments or allowances to support a student or non-employee postdoc/fellow in his or her own scholarly pursuits are gross income to the recipient.
- A. Characteristics of fellowships:**
    - a. Payment is made for activities in which the University is relatively disinterested or the research is student-led; or
    - b. The project/research's primary purpose and original intent is to further the student's education or training, rather than advance University research or scholarship; or
    - c. The University obtains little or no benefit; or
    - d. Activities are performed primarily to contribute to the development of the skills needed in the student's studies.
  - B. Examples of fellowships:**
    - a. Student travels to France for dissertation research which is not expected to provide information directly related to Harvard's own research activities – the student dissertation is the primary purpose of the travel – the student is the primary beneficiary.
    - b. Student travels to a conference in Canada as an attendee and does not present/contribute in official capacity, nor is expected to bring back and share information from the conference with others at Harvard.
    - c. Student travels to China for Mandarin language training which will assist in language proficiency needed for degree. This is supplemental work that the student may need to succeed, but it is not a required part of the degree.
    - d. A post doc is allowed to spend a portion of the institutional allowance on his grant on health insurance or transportation allowance from home to work. This is a personal benefit to the post-doc and the expense is treated as a fellowship payment.
- 5. Determine if tax withholding and reporting on fellowships are required.** Tax withholding and reporting requirements differ depending on the payment type and the recipient's citizenship or resident status.
- A. U.S. Citizens & Resident Aliens:** Tax will not be withheld from scholarship or fellowship payments made to U.S. citizens or individuals classified as resident aliens for U.S. tax purposes; the University is not required to report scholarship or fellowship income to the IRS or to the recipient. Fellowships are typically included as part of the recipient's gross income, so it is important for U.S. citizens and resident aliens to keep records and save the information they will need in order to self-report when preparing their personal tax returns. Neither the Accounts



# HARVARD UNIVERSITY FINANCIAL POLICY

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Payable group nor any other University department or employee may provide individuals with specific advice on personal tax matters; individuals in need of personal advice should consult a personal tax advisor.

- B. Foreign Nationals (Nonresident Aliens):** fellowship payments made to foreign nationals (nonresident aliens) may be subject to U.S. federal tax withholding and, if so, will be reported on a 1042-S Form. The 1042-S will be mailed by March 15 of the current year for amounts paid in the prior calendar year. If the recipient's country of residence has a tax treaty with the United States, the recipient may be able to claim exemption from all or part of this withholding by submitting Form W-8BEN to the Nonresident Alien Tax group within Central Payroll by U.S. mail or campus mail. Depending on available tax treaty benefits, the withholding rate may be 0%, 14%, or 30%. Note that if the location of the activity for which the fellowship payment is being made is outside the U.S., it is considered "foreign source income" and is not subject to U.S. taxation for nonresident aliens.
- 6. Note special rules for prizes:** the IRS defines a prize as an amount awarded in recognition of a past service or accomplishment like earning the highest GPA or winning a business plan competition. Prizes always represent gross income to the recipient to be reported on his or her tax return. If Harvard pays a U.S. tax resident \$600 or more in prize money during the calendar year, Harvard must report the total on Form 1099; Harvard must report all prizes paid to a nonresident alien on Form 1042-S and may be required to withhold taxes from the prize amount.
- 7. Comply with related policies:** these expenses must still meet the criteria for University business expenses under the accountable plan rules outlined in the Business Expense Reimbursement and Travel Policies; if not, the expenses must be treated as income and submitted and paid through Accounts Payable as fellowship payments.

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## Responsibilities and Contacts

**Financial deans or equivalent tub financial officers** are responsible for ensuring that local units abide by this policy and the accompanying procedures. The tubs have ultimate responsibility for ensuring that fellowship payments and business expense reimbursements are handled properly.

**The Financial Policy Office (FPO)**, within the Office of the Controller, is responsible for answering questions about this policy. Neither FPO nor any part of the University may provide individuals with specific advice on personal tax matters; individuals in need of personal advice should consult a personal tax advisor. **Contact: see the [FPO website](#), email [financialpolicy@harvard.edu](mailto:financialpolicy@harvard.edu) or call 617-495-3976.**

**Nonresident Alien Tax Compliance Group (NRA Tax Group)** is responsible for handling and advising on all payments to foreign nationals. Contact [nratax\\_ufs@harvard.edu](mailto:nratax_ufs@harvard.edu) or 617-495-8500, option 5.

**Office for Sponsored Programs (OSP)** is responsible for advising units on rules and requirements on federal and nonfederal awards.

**Reimbursement and Card Services (RCS)**, within Strategic Procurement, processes and performs audits of reimbursement requests. Note that these audits are not a substitute for the primary responsibility of and accountability for review and approval that rests with the local unit. RCS is responsible for answering questions about processing reimbursement requests. **Contact: see the [RCS website](#) or call (617) 495-8500, option 6.**



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## Definitions

**Accountable plan:** the IRS rules that govern how employers can repay individuals without tax consequences for business expenses the individual incurs on the Harvard's behalf.

**Fellowship:** an amount paid to or for the benefit of an individual to aid in the pursuit of study or research. At Harvard, fellowships are also called awards, stipends, grants, and allowances. Fellowships can either be qualified (meaning nontaxable) or non-qualified (meaning taxable) to the recipient, and can be paid to undergraduate and graduate and students, non-employee postdocs/fellows, visiting scholars, and other nonstudents.

**Foreign source income:** payment for activities that occur outside the U.S. Foreign source income received by nonresident aliens is not subject to U.S. taxation.

**Institutional allowance:** within a sponsored award, an allowance that can be used to fund miscellaneous expenses.

**Non-employee postdoc/fellow:** an individual engaged in research or other scholarly activity at Harvard but who is not an employee or student; often in PeopleSoft paygroup MEP(monthly external postdocs) or MTF (monthly teaching fellows).

**Non-qualified:** constitutes gross income to the recipient.

**Prize:** an amount paid in recognition of a past service or accomplishment (i.e., writing a winning paper in a competition). Per IRS rules, prizes are always taxable to the recipient.

**Qualified:** does not constitute gross income to the recipient.

**Reimbursement:** a nontaxable payment that Harvard makes to repay an individual for bona fide University business expenses that the individual has already incurred on Harvard's behalf.

**Scholarship:** money paid directly to or for the benefit of a student at an educational institution to aid in the pursuit of studies.

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## Related Resources

Fellowships Toolkit

[OSP Stipends on Sponsored Awards Policy](#)

[Travel Policy](#)

[Business Expense Reimbursements](#)

[IRS Publication 970, Tax Benefits for Education](#)

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## Revision History

N/A

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## Appendices

**Appendix A:** Decision Tree - Common Payments to Students and Non-employee Postdocs/Fellows

**Appendix B:** Sample Student/Non-employee Postdoc Expense Certification Template

# Appendix A - Decision Tree: Common Payments to Students and Non-employee Postdocs/Fellows

<p><b>START</b></p> <p>Is this payment for required tuition and fees for a degree program? (See page 13 for more information)</p> <p><b>NO</b></p> <p><b>YES</b></p>	<p>Is this payment based on a past accomplishment (e.g., earning the highest GPA, delivering best presentation, etc.)? (See Fellowships Toolkit page 16 for more information)</p> <p><b>NO</b></p> <p><b>YES</b></p>	<p>Does/did this payment require the recipient to perform services for Harvard (e.g., teaching, speaking)?</p> <p><b>NO</b></p> <p><b>YES</b></p>	<p>Is this payment for personal research/ personal scholarship or living support (room and board, etc.)? (See Fellowships Toolkit page 14 for more information)</p> <p><b>NO</b></p> <p><b>YES</b></p>	<p>Is this payment to reimburse travel or other expenses?</p> <p><b>NO</b></p> <p><b>YES</b></p>	<p><i>You need more information. Please call your tub finance office for assistance.</i></p>
<p>This payment is a <b>QUALIFIED</b> (nontaxable) <b>SCHOLARSHIP/ FELLOWSHIP</b>. Object codes 6410, 6430 For NRAs, apply directly to term bill if possible</p>	<p>This payment is a <b>PRIZE</b> (reportable/taxable) 1099 if &gt;=\$600 Use <b>NEW</b> object code 6462 for Students, 8693 for Nonstudents</p>	<p>This is a (reportable) <b>SERVICE PAYMENT*</b> 1099 if &gt;=\$600. Use object code that reflects nature of expense (e.g., tech consulting).</p>	<p>This is a <b>NON-QUALIFIED</b> (taxable) <b>SCHOLARSHIP/ FELLOWSHIP</b> payment. <b>Object codes 6440, 6450, 6452, 6455, 6460</b></p>	<p>See <b>NEXT PAGE</b> - "Expense Reimbursements for Students and Nonemployee Postdocs/Fellows" for more information.</p>	

\* A SERVICE PAYMENT is cash or other value transferred to a non-employee as compensation for services provided to the University.

# Expense Reimbursements for Students and Non-employee Postdocs/Fellows

<p><b>START</b></p> <p>Is the expense a “pass through course cost” for a student enrolled in a degree program?</p> <p>See <b>Fellowships Toolkit</b> page 13 for more information.</p>	<p>Is the expense appropriate to charge to a faculty member’s grant funds or to other departmental funds; or</p> <p>Are the expenses incurred in the course of activity where the purpose and original intent is for the University to obtain useful results from the project/research; or</p> <p>Are the expenses incurred in the course of activity where results or research will be used by the University; or</p> <p>Are the expenses incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI?</p> <p>See <b>Fellowships Toolkit</b> pages 14 and 15 for more information.</p>	<p>This is a <b>NON-QUALIFIED (taxable) FELLOWSHIP</b> payment.</p> <p><b>Object codes 6440, 6450, 6452, 6455, 6460</b></p> <p>Treat as reportable fellowship income (process as an HCOM Payment Request (“PR”) with description: “Fellowship payment: [business purpose]”</p> <p><b>Example: “Fellowship payment: summer 2014 travel award for B. Kimball, 6/28/14”</b> END</p>
<p><b>YES</b></p>	<p><b>YES</b></p>	
<p>This is a <b>NONTAXABLE REIMBURSEMENT</b>.  <i>(“Check the box”)</i></p> <p>Use object code that reflects the nature of expense (e.g., travel, lodging, supplies).            treat as a non-employee reimbursement (process as an HCOM Non Employee Reimbursement (“NR”), with description “Non-employee reimbursement: expenses incurred while providing services to Harvard – [business purpose]”</p> <p><b>Example: “expenses incurred while providing services to Harvard – J. Smith presenting on behalf of Professor Jones at 2014 APA conference, Chicago 9/28/2014”</b></p>		

**NOTE: The source of funding (i.e., sponsored research award) does NOT affect the tax treatment of the expense. The tax treatment of the expense ALWAYS hinges on whether or not it is in DIRECT SUPPORT of University business.**





# HARVARD UNIVERSITY FINANCIAL POLICY

## Appendix B - Sample Template for Student/Non-employee Postdoc Business Expense Certification

<b>Student/Non-employee Postdoc Name:</b>		
<b>Dates of Expense:</b>		
<b>Business Purpose:</b>		
<b>Section I or II to be completed by University Faculty Member or Other Authorized Harvard Employee (check one):</b>		
<b>Section I, Required Course Costs - I certify that this expense may be excluded from income because the recipient is a candidate for a degree, and:</b>		
a. The expense is for tuition and fees required for enrollment or attendance at an educational institution, or for fees, books, supplies, and equipment required for courses of instruction; or		
b. The payment or reimbursement is by Harvard for Harvard course-related travel expenses or other Harvard course-related expenses, where such expenses are necessary in delivering the Harvard course and are budgeted as part of the course cost.		
<b>Section II, Business Expense Reimbursements - I certify that this student/non-employee postdoc expense is in direct support of University business because:</b>		
a. The expense is appropriate to charge to a faculty member's grant funds or to other departmental funds; or		
b. Expenses are incurred in the course of activity where the purpose and original intent is for the University to obtain useful results from the project/research; or		
c. Expenses are incurred in the course of activity where results or research will be used by the University; or		
d. Expenses are incurred in the course of research or other activity performed to fulfill University's obligations to an outside funding entity; or		
e. Expenses are incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI.		
<b>Certification by University Faculty Member or Other Authorized Harvard Employee:</b>		
<b>Printed Name:</b>		
<b>Signature:</b>		<b>Date:</b>