

I. Prizes and Awards

According to the instructions of the Form 1099-MISC, prizes and awards of at least \$600 received in recognition of past accomplishments in scientific, charitable, educational fields are not reportable on the Form 1099-MISC if:

- The winners are chosen without action on their part,
- The winners are not expected to perform future services, and
- The payer transfers the prize or award to a charitable organization or government unit under a designation made by the recipient.

II. Scholarships and Fellowship Grants

The federal tax treatment of qualified scholarships and fellowship grants is addressed in section 117 of the Internal Revenue Code. Section 117(a) provides that gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at an educational organization described in section 170(b)(1)(A)(ii) (describing, generally, a school).

To be considered a scholarship or fellowship grant, an amount need not be formally designated as such. Generally, a scholarship or fellowship grant is any amount paid or allowed to, or for the benefit of, an individual to aid such individual in the pursuit of study or research. A scholarship or fellowship grant may, for example, be in the form of a reduction in the amount owed by the recipient to an educational organization for tuition, room and board, or any other fee.

Only "qualified scholarships" may be excluded from income. A qualified scholarship is defined as an amount expended for "qualified tuition and related expenses." Qualified tuition and related expenses are tuition and fees required for the enrollment or attendance of a student at an educational institution, and fees, books, supplies, and equipment required for courses of instruction at such an educational organization. Amounts received for room, board, travel, and incidental living expenses are not related expenses. Thus, scholarship receipts that exceed expenses for tuition, fees, books, supplies, and certain equipment are not excludable from a recipient's gross income under section 117 of the Code. Fellowship stipends made to non-degree candidates for general living expenses are a typical example of includible scholarship amounts.

The recipient of a scholarship or fellowship grant is responsible for determining whether such grant is, in whole or in part, includible in gross income for federal income tax purposes. Where participants are degree candidates, such grants will ordinarily be excludable from the recipients' gross incomes to the extent of their qualified tuition and related expenses. In the case of non-degree candidates, the entire amount of scholarship or fellowship awards is includible in gross income. You may wish to advise participants in your research programs that the amount of their scholarship or fellowship stipends that exceeds their qualified tuition and related expenses, if any, is generally includible in gross income for federal income tax purposes.

Information Reporting:

The instructions for Form 1099-MISC state that you do not use Form 1099-MISC to report scholarship or fellowship grants.

Scholarships that are taxable because they are considered wages as payment for services are to be reported on Form W-2.