



Financial Services Compensatory vs. Scholarship Stipend Guidelines

This guide helps ASU departments determine whether to process a stipend payment through the financial management system, student financial system or payroll system.

All income received by the student or participant may be treated as taxable income regardless of stipend classification. However, amounts classified as scholarship stipends are eligible for potential exclusion from income under Internal Revenue Code Section 117 for amounts paid for tuition, required fees, course books and needed school supplies. Compensatory stipends are not eligible for potential exclusion.

ASU is responsible for tax reporting and tax withholding for compensatory stipends, but not for scholarship stipends unless the recipient is a nonresident for U.S. tax purposes.

This guide is not designed to be a definitive determination of the treatment of a specific payment. For guidance on specific programs, please reach out to ASU Tax Services.

To use this guide, click on the  or  button after determining the appropriate answer to each question. This will link you with the next decision page.

Is the stipend from an NRSA grant or a program that mirrors the NRSA program?

Amounts paid through National Research Service Award grants to individuals researching at ASU or other locations have been ruled by the Internal Revenue Service to be fellowships — not wages — based on documented congressional intent. This exception by the IRS is only available when the NRSA grant program is administered consistent with National Institute of Health guidelines. The IRS has ruled that stipends paid under grant programs that are modeled on and mirror the NRSA program are treated as fellowships and not wages.

Is the recipient contractually obligated to accept employment with ASU or grantor after the stipend period?

Is the recipient participating in activities on the premise of either the external grantor or ASU?

If the recipient wasn't available, would people paid by ASU or the external grantor perform the same function as the recipient?

Do the activities of the recipient further the purposes of ASU or the external grantor in more than an insignificant degree?

Activities that further the mission of ASU or the grantor in more than an insignificant degree would include one or more of the following:

- Participating in an activity that generates revenue for ASU or the grantor.
- Performing a function that directly enhances the programs or activities of ASU or the grantor.
- Requiring the recipient to work for an organization where such employment furthers the purpose of ASU or the grantor.
- Working on a grant that has a deliverable to the grantor, e.g., a research report.

Is the activity directly connected to an ASU academic or similar extracurricular student program?

An academic or similar extracurricular student program is one in which scholarships are awarded as a standard practice at colleges and universities around the country, e.g., sports and music programs.

Is the payment of the stipend contingent upon the recipient completing the practicum, field experience, research, training or other activity?

A “yes” means ASU can immediately withdraw or cancel the stipend if the recipient discontinues participation in the activity after starting it. Conversely, a “no” indicates that the stipend will continue through the current semester or academic year even though the payee does not participate in the activity.

Pay through Financial Aid and Scholarship system or financial management system

Payments to the recipient are scholarship stipend payments.

Based on your responses, this stipend appears to fall under the parameters of being a scholarship. Payment should be processed via ASU's financial aid and scholarship system or financial management system. If the recipient is an ASU student, please contact the financial aid and scholarship office to determine if the award needs to be reported through the student's financial account before processing through the financial management system.

If the student is determined to be a nonresident for U.S. tax purposes, there may be additional documentation required. Up to 30% may be withheld from any payments and remitted to the IRS on their behalf.

Payments to the recipient are compensatory stipend payments.

Based on your responses, this stipend appears to be compensatory and therefore should be processed through ASU's payroll system. Please work with your HR representative to determine the best job code and process to administer these amounts.

ASU will tax, withhold and report any amounts paid via the payroll system.