KEY TAX ISSUES
FOR
FELLOWSHIP STIPEND RECIPIENTS
Welcome to Washington University!

Key Contacts:

• Your Department regarding your stipend
• Payroll Department regarding your stipend payments
• Office for International Students & Scholars for international issues
• A tax advisor regarding how stipends are taxed
• Visit financialservices.wustl.edu ➔ Financial Services Topics ➔ Payroll and Time Reporting ➔ For Fellowship Stipend Recipients

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Taxability of Fellowship Stipend Payments

- **Two key tax issues**
  1. How to treat your stipend payments throughout the year
     - FILE ESTIMATED TAX PAYMENTS
  2. How to report your stipend payments on your tax return
     - NONQUALIFIED SCHOLARSHIP INCOME

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Taxability of Fellowship Stipend Payments

• Stipend payments paid directly to you are taxable income

• Stipend payments are NOT wages or earned income

  ➢ Cannot be used to:
    ❖ Claim certain credits
    ❖ To make Traditional or Roth IRA contributions
    ❖ To make Keogh plan contributions
Estimated Tax Payments: Why do I have to pay?

- U.S. Tax System is “pay-as-you-go”
  - Taxes for the year, must be paid throughout the year!
  - ie. Employers withhold taxes from wages
- Fellowship Stipend Payment withholding rules
  - No withholding on US citizens, permanent residents, or tax residents
  - Federal withholding required for nonresident aliens (no state w/h)
- Without withholding, IRS requires Estimated Tax Payments
- Some states, including Missouri, also require estimated payments

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Estimated Tax Payments: When do I have to pay?

QUARTERLY PAYMENT DUE DATES

• April 15
• June 15
• September 15
• January 15

AMOUNTS

• Divide total estimated payments by remaining due dates this year
Estimated Tax Payments: How much do I have to pay?

- Estimated payments are required if:
  - Expected Federal taxes for the year are more than $1,000.
  - Expected Missouri taxes for the year are more than $100.

- Calendar year estimated tax for both Federal and Missouri is the lesser of:
  - 90% of current year expected liability; or
  - 100% of prior year actual liability.

- Penalties are assessed on failure to pay, late payments, and insufficient payments.

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Estimated Tax Payments: Applying the rules

EXAMPLE

- Your 2017 total expected tax liability is $2,000.
- Your 2016 total tax liability was $3,000.
  - Your 2017 total estimated payments due = $1,800
- You begin receiving your stipend payments in August
- Two payment due dates remain for 2017
  - September 15, 2017 $900
  - January 15, 2018 $900
Calculating your expected federal tax liability

**FEDERAL FORM 1040-ES**

**TAX TABLES**

**INCLUDES TAX TABLES**

**PAYMENT VOUCHERS**

**INCLUDES PAYMENT VOUCHERS**

**ESTIMATED TAX WORKSHEET AVAILABLE AT WWW.IRS.GOV**

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Calculating your expected federal tax liability

FEDERAL FORM 1040-ES

### 2017 Estimated Tax Worksheet

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Adjusted gross income you expect in 2017 (see instructions)</td>
</tr>
</tbody>
</table>
| 2 | • If you plan to itemize deductions, enter the estimated total of your itemized deductions.  
Caution: If line 1 is over $156,900 your deduction may be reduced. See Pub. 505 for details.  
• If you do not plan to itemize deductions, enter your standard deduction. |
| 3 | Subtract line 2 from line 1.                                                 |
| 4 | Exemptions. Multiply $4,050 by the number of personal exemptions.  
Caution: See Worksheet 2-6 in Pub. 505 to figure the amount to enter if line 1 is over: $156,900 |
| 5 | Subtract line 4 from line 3                                                  |
| 6 | Tax. Figure your tax on the amount on line 5 by using the 2017 Tax Rate Schedules.  
Caution: If you will have qualified dividends or a net capital gain, or expect to exclude or deduct foreign earned income or housing, see Worksheets 2-7 and 2-8 in Pub. 505 to figure the tax. |

### Instructions

**ALL INCOME**  
See Instructions  
See Instructions  
Use tax tables
Calculating your expected federal tax liability

FEDERAL FORM 1040-ES

<table>
<thead>
<tr>
<th>13c</th>
<th>TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% of TAX Last year TAX</td>
<td></td>
</tr>
<tr>
<td>Smaller of 14a or 14b</td>
<td></td>
</tr>
<tr>
<td>14c</td>
<td></td>
</tr>
<tr>
<td>Amounts already paid</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>14a</th>
<th>14b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required annual payment based on prior year’s tax (see instructions)</td>
<td></td>
</tr>
<tr>
<td>Required annual payment to avoid a penalty. Enter the smaller of line 14a or 14b</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13c-15</th>
<th>16a-16b</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of 16a divided by # of remaining due dates</td>
<td>Amount of 16c divided by # of months</td>
</tr>
</tbody>
</table>

Caution: Generally, if you do not prepay (through income tax withholding and estimated tax payments) at least the amount on line 14c, you may owe a penalty for not paying enough estimated tax. To avoid a penalty, make sure your estimate on line 13c is as accurate as possible. Even if you pay the required annual payment, you may still owe tax when you file your return. If you prefer, you can pay the amount shown on line 13c. For details, see chapter 2 of Pub. 505.
Calculating your expected MO tax liability

MISSOURI FORM MO-1040ES

TAX TABLES

Use the amount from Line 11 (disallow taxable income) to calculate your Missouri tax. If you are eligible, you must calculate separate tax amounts and enter the amount on 1271 for yourself and 1270 for your spouse. The total amount should be entered on Line 12. Single filers should enter the tax amount on Line 12.

Example 1: If Line 11 is $3,090, the tax would be computed as follows: $300 + $1,540 (3% of $3,090) + $1,198. The total dollar amount to enter on Line 12 would be $62.

Example 2: If Line 11 is $12,360, the tax would be computed as follows: $314 + $1,165 (6% of $3,210) + $950. The total amount to enter on Line 12 would be $5,029.

PAYMENT VOUCHERS

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Reporting fellowship stipends on your tax return

For U.S. citizens, permanent residents, and tax residents

- No IRS document upon which WU can report nonqualified scholarship income
  - Not reported on a W-2, 1099, or 1098-T!
- Payments are reported to you in mid-January on an online Courtesy Letter, available for download in HRMS Self-Service
  - Do not send in with tax return!

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Reporting fellowship stipends on your tax return

- US citizens and tax residents
  - Write SCH and stipend amount on Form 1040 or 1040A Line 7
  - For tax software users, report this as taxable “nonqualified scholarship income” or similar
  - Remember: Your tax letter is NOT a substitute W-2 or 1099!!
  - DO NOT ATTACH TO YOUR TAX RETURN!

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**For nonresident aliens**

- Stipends are reported to you as nonqualified scholarship income in mid-February on a Form 1042-S
- Taxes withheld
  - **FEDERAL ONLY!**
- Taxes not withheld
  - **STATE**
  - Remember to calculate whether you must make estimated tax payments

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Reporting fellowship stipends on your tax return

- Nonresident aliens
  - Report stipend amount on Form 1040NR Line 12
- State tax returns
  - MISSOURI
  - YOUR HOME STATE
- Reporting is similar to federal return
Summary

• Understand the type(s) of income you are receiving
• You may need to make estimated tax payments!!
  ➢ Complete the FEDERAL & STATE estimated tax worksheets
• Report your taxable stipend amount on your annual tax returns as nonqualified (taxable) scholarship or fellowship income!
  ➢ Do not mail your stipend letter with your tax return. It is not a substitute tax form; it is only a courtesy letter to you.
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QUESTIONS?

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