

Tax Treatment of Scholarship Payments

This information is provided to you to use in developing your chapter's Awards Policy.

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution with the express purpose to aid in the pursuit of studies. Generally, the expenses that are paid with the scholarship and whether the student is a degree candidate determine whether the scholarship amount is tax free or taxable.

A scholarship is tax-free only if:

- Student is a candidate for a degree at an eligible educational institution,
- Student uses the scholarship to pay qualified education expenses, and
- It does not represent payment for teaching, research, or other services required as a condition for receiving the scholarship.

A student is a candidate for a degree if he/she:

- Pursues a degree at a college or university, or
- Attends an educational institution that:
 - Provides a program that is acceptable for full credit toward a bachelor's or higher degree, or offers a program of training to prepare students for gainful employment in a recognized occupation
 - Is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

Qualified Education Expenses are:

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

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

Expenses that do not qualify as education expenses include the cost of:

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

Taxable Scholarships

If the student's scholarship does not meet the requirements described above, it is taxable income to the student. The following amounts received may be taxable:

- Amounts used to pay expenses that do not qualify
- Payments for services (i.e. payment for teaching, research, or other services required as a condition for receiving the scholarship)
- Scholarship prizes (if the student wins a scholarship as a prize in a contest, the scholarship is fully taxable unless they meet the requirements discussed earlier)