RAS Friday Presentation: 
Fellowships vs. Business Expense Reimbursements Policy

Financial Policy Office
Office of the Controller
November 21, 2014
Policy overview

- Guidance on when to treat expenses of students and non-employee postdocs as
  - **Business expense reimbursements** (which are not included in gross income)
    ...and when to treat them as
  - **Fellowship payments** (which are included as gross income)
- We’ve interpreted the IRS guidance in the policy and applied it to some common situations at Harvard
- Note: policy assumes that postdocs have been classified correctly (as employees or non-employees)
Basic Tax Concepts

Before discussing fellowships, a few basic tax concepts:

- **Gross income**: required to be reported on a personal tax return. Every single time Harvard transfers money or other value to someone, *even to reimburse that person for an expense*, it’s considered gross income to the recipient – unless an exclusion applies.

- **Withholdings**: taxes taken out of a payment up front

- **Business expense reimbursement**: repayment for a University expense that a person paid for out of pocket

- **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 the particular expense is in DIRECT SUPPORT of University business.
Fellowship Payments

A fellowship is an amount paid or allowed on behalf of an individual to aid that individual in his or her personal scholarship.

Characteristics of fellowships:

- Payment is made for activities in which the University is relatively disinterested or the research is student-led; or
- 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
- The University obtains little or no benefit; or
- Activities are performed primarily to contribute to the development of the skills needed in the student's studies.
The tax treatment of fellowships depends on whether the payment is made to a US resident for tax purposes or to a non-resident alien:

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<tr>
<th>US Tax Residents</th>
<th>Non-Resident Aliens</th>
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<tr>
<td>• Harvard is not required to report payments to the IRS or to the recipient</td>
<td>• Harvard is required to report payments to the IRS and to the recipient on Form 1042-S</td>
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<tr>
<td>• No withholding is required</td>
<td>• Withholding is required (usually at 14% or 30%) but can be reduced by tax treaties if available</td>
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<td>• Recipient must self report as gross income</td>
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Criteria for University Business Expenses

Expenses may be reimbursed as University business expenses if a faculty member or another authorized Harvard employee determines that the expense is in direct support of University research or scholarship.

Characteristics of expenses in direct support of University research or scholarship:

- The expense is appropriate to charge to a faculty member’s grant funds or to other departmental funds; or
- Expenses are incurred in the course of activity where results or research will be used by the University; or
- Expenses are incurred in the course of activities that advance research or scholarship supported by a Harvard department or being undertaken by a PI.
Specific Guidance for Conferences

Conference expenses are in direct support of University research or scholarship when the purpose is:

• Speaking/presenting a paper, poster, or serving on a panel on Harvard’s behalf; or

• Attending a conference, field site, or off-campus laboratory to gain information directly related to University research or scholarship which will be relayed to others within the University
Next Steps

• More guidance is coming!
  o Fellowships Toolkit
  o Information sessions

• Business process focus group with NRA Tax team, AP and departments

• Go-live is targeted for January 2015