

September 1st, 2016

Dear BGS Students,

There is some confusion regarding the years of the program in which you get no taxes withheld from your stipend check, and need to file estimated taxes and the years in which you do, and so don't need to file estimated taxes. The following is a *typical* funding scenario for most **BGS students (US and permanent residents)** in FY17, August 29th, 2016 – August 31, 2017. Please note that there are always exceptions to the norm in a program with 600 plus students. So if you think that you don't fit the profile indicated below, or are not sure of your funding source for FY17, please don't hesitate to contact the BGS office at 417 Anat-Chem Building.

In year **1** you may be supported in one of the following ways:

Funded by BGS as Educational Fellowship Recipient (henceforth EFR) and hence no taxes are withheld by the University. However, you are expected to file estimated taxes on the portion of stipend paid by BGS. BGS stipend is \$31,000, September 1, 2016 – August 31, 2017. **As a result, a W-2 will NOT be generated for you at the end of any given tax year.**

OR

Funded by a combination of BGS and Training grant (henceforth TG), and hence as Educational Fellowship Recipient (for the BGS portion of your stipend) and Pre-Doc Trainee (for the TG portion of your stipend) no taxes are withheld from your stipends. However, you are expected to file estimated taxes on the portion of stipend paid by BGS and the TG. **As a result, a W-2 will NOT be generated for you at the end of any given tax year.**

For FY17, September 2016 – August 2017, the breakdown is as follows:
If TG stipend is \$23,376, then the BGS stipend contribution is \$7624.

NOTE: PhD students can **ONLY** be appointed to NIH training grants (institutional or individual) for a **TOTAL** period of 5 years.

HOWEVER, Taxability of Stipends Section 117 of the Internal Revenue Code applies to the tax treatment of scholarships and fellowships. The Tax Reform Act of 1986, Public Law 99-514, impacts on the tax liability of all individuals supported under the NRSA and BGS fellowship programs. New statutory requirements were effective as of January 1, 1987. Degree candidates may now exclude from gross income (for tax purposes) any amount used for course tuition and related expenses such as fees, books, supplies and equipment required for courses of instruction at a qualified educational organization. Non-degree candidates are now required to report as gross income all stipends and any monies paid on their behalf for course tuition and fees required for attendance.

It must be emphasized that the interpretation and implementation of the tax laws are the domain of the Internal Revenue Service and the courts. NIH and the University of Pennsylvania takes no position on what the status may be for a particular taxpayer, and it does not have the authority to dispense tax advice. Individuals should consult their local IRS office about the applicability of the law to their situation and for information on their tax obligations.

Please check the following IRS web page for publications related to the taxability of NIH fellowships: IRS publication#4, Student's Guide to Federal Income Tax; IRS Publication 520, Scholarships and Fellowships. http://www.irs.gov/forms_pubs/pubs.html

In year **2** you may be supported in one of the following ways:

Funded by BGS as EFR until May 31, 2017. Funded by a combination of BGS, as EFR, and Mentor, as Research Fellow (henceforth RF), for June – August 2016. BGS provides \$500 per month and the mentor, \$2083.33 per month, for this period. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 will be generated for you at the end of any given tax year.**

OR

Funded by a combination of TG and Mentor. For the TG portion of your stipend no taxes are withheld from your stipends. However, you are expected to file estimated taxes on the portion of stipend paid by the TG. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 will be generated for you at the end of any given tax year.**

For FY17, June 2017 – August 2017, the breakdown is as follows:
If TG stipend is \$23,376, then the mentor stipend contribution is \$7624.

In years **3-5** you may be supported in the following ways:

Combination of TG, and Mentor. In this case, your stipend is jointly paid by the TG and your mentor. For the TG portion of your stipend, no taxes will be withheld. However, you are expected to file estimated taxes on the portion of stipend paid by the TG. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year, for this portion of your stipend.** Your mentor only pays for a portion of your tuition in this combination.

For FY17, September 2016 – August 2017, the breakdown is as follows:

If TG stipend is \$23,376, then the mentor stipend contribution is \$7,624.

Combination of Mentor and BGS: In this case, your stipend is jointly paid by the mentor and BGS. For the BGS portion of your stipend, no taxes will be withheld. However, you are expected to file estimated taxes on the portion of stipend paid by BGS. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year, for this portion of your stipend.**

For FY17, September 2016 – August 2017, the breakdown is as follows:
Mentor pays \$25,000 and BGS pays \$6,000.

Combination of Individual NRSA and Mentor: In this case, your stipend is jointly paid by the NRSA and your mentor. For the NRSA portion of your stipend, no taxes will be withheld. However, you are expected to file estimated taxes on the portion of stipend paid by the NRSA. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year, for this portion of your stipend.**

For FY17, September 2016 – August 2017, the breakdown is as follows:
If NRSA stipend is \$23,376, then the mentor stipend contribution is \$7,624.

In years **6+** of the program you may be supported in the following ways:

Combination of Individual NRSA and Mentor: In this case, your stipend is jointly paid by the NRSA and your mentor. For the NRSA portion of your stipend, no taxes will be withheld. However, you are expected to file estimated taxes on the portion of stipend paid by the NRSA. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year, for this portion of your stipend.**

For FY17, September 2016 – August 2017 the breakdown is as follows:
If NRSA stipend is \$23,376, then the mentor stipend contribution is \$7,624.

Combination of TG and Mentor: In this case, your stipend is jointly paid by the TG and your mentor. For the TG portion of your stipend, no taxes will be withheld. However, you are expected to file estimated taxes on the portion of stipend paid by the TG. As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year, for this portion of your stipend.**

For FY17, September 2016 – August 2017, the breakdown is as follows:
If TG stipend is \$23,376, then the mentor stipend contribution is \$7,624.

Mentor Only: As the mentor portion of your stipend is most likely to be paid off a research grant, the following taxes should be withheld: Fed/City. **As a result, a W-2 should be generated for you at the end of any given tax year.**

For FY17, September 2016 – August 2017, the breakdown is as follows:
Mentor pays entire stipend of \$31,000.

NON-US STUDENTS

Please note that foreign students CANNOT be appointed to NIH training grants.

CLAIM OF TREATY EXEMPTION: If you are receiving a scholarship or fellowship from the University of Pennsylvania, you can claim benefits of a tax treaty between the US and your country of residence, if you belong to one of the countries listed below:

| | |
|---------------------|-------------------------------|
| Kazakhstan | Tunisia |
| Korea, Rep. Of | Belgium |
| Morocco | China, People's Republic of |
| Netherlands | Commonwealth of Ind. States & |
| Norway | Georgia* |
| Philippines | Cyprus** |
| Poland | Czech Republic |
| Portugal | Egypt |
| Romania | France |
| Russia | Germany |
| Slovak Republic | Iceland |
| Spain | Indonesia |
| Thailand | Israel |
| Trinidad and Tobago | Japan |

* The tax exempt amount of scholarship/fellowship awards under this treaty is limited to \$9,999.99, including tuition, fees, and any stipend payments.

** Residents of Cyprus who are NOT candidates for a degree are not allowed to claim tax treaty exemption.

If you don't belong to one of the countries listed above, then the taxable portion of your award (stipends if you are an Educational Fellowship Recipient) will have tax withheld at the rate of 14%. Indicated below is the typical contribution to your stipend as an Educational Fellowship Recipient:

Yrs 1-2: Both years will be entirely paid as an Educational Fellowship Recipient
Yrs 3-5: A portion of your stipend, (\$6000, September 1, 2016 – August 31, 2017) will be paid as an Educational Fellowship Recipient.
Yrs 6+: Entirely paid as Research Fellow from mentor's research grant. Should be taxed as: Federal/City.

Please note that the University generates Form 1042S for non-U.S. students.
Additional details regarding Form 1042S are in Publication 1187, Specifications for

Filing Form 1042S and can be found at the following web page.

http://www.irs.gov/forms_pubs/pubs.ht

Additional information about student appointments and associated taxes are also available at the website below:

<http://www.finance.upenn.edu/comptroller/tax/appointments.shtml>

Taxability of student financial aid varies from Federal to State to Local Government, and also varies based on the source of student support (i.e., research grant, training grant, teaching assistantship, etc.). Although most students will have a relatively straightforward tax liability, for some students it may be necessary to calculate different taxes for different semesters. Therefore, Biomedical Graduate Studies would like to provide the accompanying information to help you understand your income tax liability. This email is for information purposes only. The University of Pennsylvania and the Biomedical Graduate Studies staff members are not trained tax consultants. It is recommended that all students meet with an authorized tax consultant if they have any questions concerning their Federal State, and City tax liabilities.

In most cases, tuition and course-related fees will be tax exempt. Therefore, the only income reported from your fellowship is typically your stipend, health insurance payment, and disability fee (only applicable to CD students). Also included is “Your 2016 Biomedical Graduate Studies OR Combined Degree Fellowship as Taxable Income”. This chart provides the basic figures that each student should have received based on their year of matriculation. All of these figures should be confirmed by:

- 1) Referring to your December 2016 pay advise for year-to-date stipend payments and using Penn-in-Touch to identify your health and disability coverage (please keep in mind that your University fellowship normally provides basic single health insurance coverage plus clinical fees, which cost \$1881 for Spring 2016 and \$1939 for Fall 2016); OR
- 2) By contacting BGS, 417 Anat-Chem Building.

Below is a summary of each of the tax laws and relevant information that may be of help to you.

FEDERAL – 2016 Return:

“If you received a scholarship or fellowship, all or part of it may be taxable, even if you didn’t receive a W-2 form” (IRS, Publication 4, “Student’s Guide to Federal Income Tax, 1999). Publication 4 continues to describe exemptions from income including tuition and course related fees such as general and technical fees which are charged to student accounts on a per course unit basis. In most cases, students will only be liable for stipend and health insurance payments provided by their fellowships. ****Please consult a tax advisor for more information****

International students may or may not be liable for Federal taxes. The CTO determines each student's tax withholding based on his or her home country's tax treaty with the United States (IRS, Publication 901, "U.S. Tax Treaties", 1999). The Office of International Students and Scholar Services (ISSS) will be providing tax information to International Students on a walk-in basis. You can also obtain up-to-date information through the ISSS website: <https://global.upenn.edu/iss>

FEDERAL –2016 Estimated Tax Returns:

The general rule applying to estimated tax payments is "You must make estimated tax payments for 2016 if you expect to owe at least \$1,000 in tax for 2016, after subtracting your withholdings and credits..."(Tax withholding and Estimated Tax, IRS Publication 505). In order to avoid a penalty for owing more than the recommended \$1,000, students will need to complete the estimated tax return worksheet to determine their individual tax liability.

A list of Federal forms, instructions and publications are attached for your reference.

STATE: Students are subject to their home state tax laws. For example, students who are Pennsylvania residents are generally tax exempt on scholarship and fellowship awards made on the basis of need or academic achievement, if awarded to encourage or allow the recipient to further his or her educational development (PA Department of Revenue pamphlet, REV-614, 1999). In order to qualify for PA tax exemption, students will need to obtain an original letter from their home department business administrator with a detailed description of the program under which you received the award. It was also suggested that students attach a copy of the acceptance letter indicating that they were awarded a fellowship upon matriculation. BGS and CD students can obtain a duplicate copy of their fellowship letters from their respective home school academic offices.

Information on where to obtain State tax forms and information is attached.

Once again, all students were encouraged to contact an authorized tax consultant regarding filing obligations and tax liabilities. Students should contact Nam Narain at narain@mail.med.upenn.edu if they have any questions regarding the information provided above.

Key Information

- ❖ Check your **December 2016** pay advise/stub to determine whether or not taxes were withheld from your stipend.
 - ❖ If taxes were withheld, you will receive a W-2 (Domestic Students) or a 1042S (International Students only) by January 31. To verify the mailing address, refer to your November 2016 pay advice. If the address is incorrect, you will need to go to the Payroll Office located on the 3rd floor of the Franklin Building to request that a duplicate form be issued. Payroll will not accept address changes or request for duplicate W-2 / 1042S forms by telephone. Note: You can also access the W-2 statement. Go to U@Penn and click on My Tax Info (<http://www.upenn.edu/u@penn>) Log- in to ADP W-2 services using your PennKey and password and enter the requested information. On the Tax Statements screen, click on the “Click here for W-2 information for tax years 2013 and later” link.
 - ❖ If no taxes were withheld, you will need to use your December 2016 pay advise to indicate your year-to-date income for your tax returns.
- ❖ Electronic pay information, for viewing your pay, can be retrieved by using your PennKey and password at www.upenn.edu/u@penn under “My Pay”. This information is available the day before payday each month.
- ❖ Check www.upenn.edu/u@penn to make sure your local Penn and permanent addresses are accurately listed. This system does not merge w/other Penn systems and is used just for payroll. Go to “Pay and Benefits” and click on “My Profile.”
- ❖ Federal Tax Forms can be obtained from:
 - ❖ The web at <http://www.irs.gov/Forms-&-Pubs>
 - ❖ By telephone at 1-800-TAX-FORM
 - ❖ By Fax at 1-703-368-9694 (from a telephone connected fax machine only)
 - ❖ Local public libraries and postal offices
- ❖ Pennsylvania State Tax Forms can be obtained from:
 - ❖ The web at <http://www.revenue.state.pa.us>
 - ❖ Local public libraries and postal offices
 - ❖ By telephone:
 - Fact and Information line: 1-888-PATAXES (Touch-tone service required)
 - To order forms: 1-800-362-2050
 - For questions on personal taxes: 1-717-787-8201
- ❖ City Taxes:
 - ❖ Tax returns are not required.

FEDERAL FORMS, INSTRUCTIONS, AND PUBLICATIONS AVAILABLE FOR TAX INFORMATION

Internet Address: <http://www.irs.gov/Forms-&-Pubs>

U.S. Citizens

Forms and Instructions

- 2016 Form 1040ES – Estimated Tax for individuals
- 2016 Form 1040EZ – Income Tax Return for Single and Joint Filers with No Dependents
- 2016 Instruction 1040EZ – Instructions for Form 1040EZ
- 2016 Form 1040A – U.S. Individual Income Tax Return
- 2016 Instructions 1040A Instructions for preparing form 1040A
- 2016 Form 1040 – U.S. Individual Tax Return
- 2016 Instructions 1040 – Instructions for Form 1040

Publications

- 4 – Students Guide to Federal Income Tax
- 54 - Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 501 - Exemptions, Standard Deduction, and Filing Information
- 505 – Tax Withholding and Estimated Tax
- 508 – Educational Expenses
- 514 – Foreign Tax Credit for Individuals
- 520 – Scholarships and Fellowships
- 525 – Taxable and Non-Taxable Income
- 529 – Miscellaneous Deductions

International Students

Forms and Instructions

- 4 – Students Guide to Federal Income Tax
- 54 - Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 501 - Exemptions, Standard Deduction, and Filing Information
- 505 – Tax Withholding and Estimated Tax
- 508 – Educational Expenses
- 514 – Foreign Tax Credit for Individuals
- 519 – U.S. Tax Guide for Aliens
- 520 – Scholarships and Fellowships
- 525 – Taxable and Non-Taxable Income
- 529 – Miscellaneous Deductions
- 901 – U.S. Tax Treaties

The Office of International Students and Scholar Services (ISSS) will be providing tax information to International Students on a walk-in basis. You can also obtain up-to-date information through the ISSS website: <https://global.upenn.edu/iss>

