

**Non-Resident Alien – Fellowship/Scholarship
Payments and Taxes
Monthly Reporting Process**

Service Request 16938

University of California
Office of the President
Payroll Coordination and Tax Services
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Non-Resident Alien – Fellowship/Scholarship Payments and Taxes Monthly Reporting Process

Background

The Internal Revenue Service (IRS) does not require the University to withhold federal taxes on or report to IRS Fellowship and Scholarship income for Postdoctoral Scholars who are Citizens or Resident Aliens of the United States.¹ However, the IRS requires that the University tax Non-Resident Alien (NRA) Postdoc-Fellows at flat percentages based upon their visa types.² The Payroll/Personnel System (PPS) modifications³ to accommodate the Postdoctoral Scholar Benefits Plan (PSBP) added the function to withhold taxes by flat percentages based upon visa types.

The PPS does not include a systematic process to determine whether the NRA with a fellowship has paid the correct federal withholding tax. Secondly, prior to the PPS modifications to accommodate the PSBP on the Employee Data Base (EDB), the PPS included the Fellowship/Scholarship grosses in the Federal Withholding Gross fields, making the Fellowship/Scholarship grosses indistinguishable from salaries and wages. During year-end processing, the campus Payroll Office manually determined the appropriate amount of taxes to be withheld from each Fellowship/Scholarship payment paid to Postdoc-Fellows, for those campuses that pay Fellowships/Scholarship payments through the PPS.

Thus, campus Payroll Offices need a reporting tool to determine that the appropriate percentage of federal withholding tax has been withheld from fellowship or scholarship payments paid to NRA Postdoc appointees.

Current Process

Campuses use varying manual processes to determine whether federal taxes have been correctly withheld from Fellowship and Scholarship payments.

Proposed Process

The PPS should include a reporting process that captures the data of Non-Resident Aliens on the EDB with non-zero Fellowship/Scholarship Grosses that consists of Fellowship and Scholarship payments and any imputed income derived from the PSBP. The process should include a simple calculation to determine the tax liability by multiplying the Fellowship/Scholarship gross by the percentage established by the IRS.

The process should select all individuals who have a non-zero Fellowship/Scholarship Gross (EDB 5555) and Citizenship Status Code (EDB 0109) of N, E, A, X, F, or S regardless of Employment Status Code (EDB 0144). Using the Visa Type (EDB 0110) and the associated Federal Withholding Tax Percentage, the process should calculate the FWT deduction that

¹ Department of the Treasury, Internal Revenue Service, Publication 520, *Scholarships and Fellowships*

² Department of the Treasury, Internal Revenue Service, Publication 519, *U.S. Tax Guide for Aliens*

³ Release 1612 distributed on December 3, 2004

should be reported on the Form 1042-S by multiplying the Fellowship/Scholarship Gross by the appropriate FWT percentage. The table below displays the Citizenship Status Codes, Visa Type codes and associated FWT percentages.

Citizenship Status Code	Visa Type Code	Federal Withholding Tax Percentage
N, E, A, X, F, or S	J	14%
N, E, A, X, F, or S	F	14%
N, E, A, X, F, or S	All others	30%
N, E, A, X, F, or S	No Visa Type Code	30%

The process should report the product of the FWT percentage and the Fellowship/Scholarship Gross and compare the product to the Fellowship/Scholarship FWT Deduction Balance. The process should report the Difference.

The report should include the following information. A sample report is in Attachment A.

Description	Data Element Number
Name	EDB0105
Identification Number	
Home Department Number/Translation	EDB0114
Citizenship Status Code	EDB0109
Visa Type Code	EDB0110
Federal Tax Percentage	
Fellowship/Scholarship Gross	EDB 5555
Calculated FWT	calculated
FEL NRA FWT deductions	EDB 636
Difference	calculated

The process should sort and page-break by the individual's Home Department Number. Within each Home Department, the process should sort the individuals in alphabetical orders by last name.

This reporting process should be available to the Payroll Office at will (e.g., after each payroll compute cycle) but no less than during the month-end reporting process.

Attachment A – Suggested Format for Non-Resident Alien – Fellowship/Scholarship Payments and Taxes

Standard Headings

Non-Resident Alien – Fellowship/Scholarship Payments and Taxes

Name Home Department Code/Translation	EIN	Cit Code/ Visa	% of Tax	Fellow/ Scholar Gross	Calculated FWT Tax	F/S FWT Ded	Difference
Postdoc-Fellow A 123456/Home Department	123456789	N/J1	14%	\$25,300.00	\$3,542.00	\$3,545.00	\$3.00
Postdoc-Fellow B 222345/Home Department 1	234567890	N/H1	30%	\$25,300.00	\$7,590.00	\$6,545.00	(\$1,045.00)
Postdoc-Fellow C 333333/Home Department 2	345678901	N/	30%	\$25,300.00	\$7,590.00	\$7,590.00	\$0.00

