Ball State University
Procedure for Disbursing Awards, Prizes, Scholarships and Payments for Services

EFFECTIVE DATE: January 1, 2014

LAST REVISION: May 27, 2014

PROCEDURE ISSUED FROM: Office of University Controller in conjunction with the Office of Scholarships and Financial Aid and the Accounting Office

I. PURPOSE: This procedure (“Procedure”) is hereby adopted for the purpose of detailing the proper channels through which to process payments to Ball State University (“University”) students.

II. BACKGROUND: Each year the University and its various departments make numerous payments to students. Some of these payments are intended to assist in financing a student’s academic pursuits while others act as a payment for services performed through an employment or contractor relationship. While the University allows individual departments to select their various payment recipients, it must ensure compliance with all federal regulations. Care must be taken in the awarding and processing of payments to students to ensure proper reporting is done for tax and financial aid purposes.

III. APPLICABILITY: This procedure applies to any payment to an enrolled student funded or administered by the University.

IV. PROCEDURE DEFINITIONS: Many of the terms used to describe payments made to University students are used interchangeably which makes for very confusing discussions. For the purposes of this Procedure, all amounts paid to students which are not payments for services or a prize won in a contest will be called an “award.” The generally accepted definitions of the types of payments typically issued to students are provided below:

**Award**
Gift aid awarded based on any number of criteria, such as academics, achievements, hobbies, talents, and affiliations with various groups, or career aspirations. An award may be won through a contest if the following conditions apply:
- The amount won must be used for educational expenses,
- The winner has to be a Ball State student, and
- The contest is related to the student’s coursework, studies or degree completion.

**Prize**
Payment won in a contest that does not have to be used for educational expenses. Prizes may include cash, tangible personal property (e.g., an...
iPad) or complimentary services. Prize recipients are not required to be students and the contest is not required to relate to student’s coursework, studies or degree completion.

**Grant**

Gift aid of financial support based on criteria such as need analysis, geographic factors, academic achievement or other factors. Recipient is selected based on specific criteria set by the awarding organization and the amount must be used for educational expenses.

**Scholarship**

A scholarship is a cash amount paid to or for the benefit of an individual to aid the individual in the pursuit of study or research. Scholarships are gift aid, which is not repaid. Scholarships are awarded on merit, need or other criteria set by the donor (which may be a University department or a private entity). A scholarship recipient has no service obligations other than to remain enrolled and maintain qualifying requirements of the award.

A scholarship can be qualified (excludable from income) or non-qualified (include in income) based on the following definitions:

- A “non-qualified scholarship” is any amounts received to cover *incidental expenses*3 of a candidate for a degree at an institution of higher education or by a non-degree candidate.
- A “qualified scholarship” is any amount received by an individual as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the conditions of the scholarship, such amount was used for qualified tuition and related expenses4.

**Service-based Payments**5

Any amount paid to or allowed to, or on behalf of, a recipient (even the amount is designated for educational expenses) is NOT gift aid if the amount:

- represents compensation for past, present, or future employment services  
- represents payment for services which are subject to the direction or supervision of the grantor; or  
- subsidizes studies or research “primarily for the benefit of the grantor”

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3 For example, amounts used to pay optional fees, room, board, travel and personal expenses.  
4 Prop. Reg. 1.117-6(c)(3) Qualified tuition and related expenses includes tuition and fees required for the enrollment or attendance of a student at an institution of higher education, as well as fees, books, supplies and equipment required for the course of instruction at the institution.  
5 Treasury Reg. §1.117-4(c)(1)
PROCEDURE DETAILS: Ball State University, in compliance with federal student aid regulations, requires that all scholarships, grants and academic award payments to University students be made through the Office of Scholarships and Financial Aid. This is imperative as, in general, a student’s total financial assistance (from both federal and non-federal sources) may not exceed the student’s financial need. The receipt of scholarship assistance may reduce a student’s eligibility for federal and/or institutional loans, grants, scholarships and/or work study. Since the University is liable for any overpayment or over award made to an individual student, it must immediately resolve any overpayment/over award. The University’s failure to comply with these regulations may result in institutional fines and loss of federal funding.

In compliance with tax law, any amount paid to a University student which represents a prize or a payment for teaching, research, or other services performed by the student as a condition for receiving the funds will be reported as taxable income each year as required.

Case law establishes that whether a payment is of the nature of a scholarship or is of the nature of compensation depends on the primary purpose of the payment. Again, the substance and intent of a transaction, not the name or form of payment determines whether an award is a scholarship, prize or compensation. Amounts representing payment for services is not limited to cash payments, but also includes amounts by which the tuition of the person performing services is reduced. Thus, tuition remission payments that represent compensation for services are not excludable from gross income as a scholarship. If only a portion of a scholarship represents payment for services, the University must determine the amount of the scholarship (including any reduction in tuition or related expenses) to be allocated to payment for services and report that portion as taxable compensation.

V. REPORTING: All scholarships, grants and academic award payments to University students must be included in the Office of Scholarships and Financial Aid’s calculation of a student’s estimated financial assistance package. The Department of Education has clarified that the following circumstances do not change the treatment of an award as financial assistance:

- The source of the funds, including the school itself (such as an academic department) or an outside source (such as a Lions Club).
- The reason why the funds are awarded, such as for the highest grade point average or best design.
- The school’s or other source’s name for the award.
- The selection of the award recipient by an outside organization. For example, the outside organization selected the award recipient and sent the funds directly to the school for disbursement.

Such awards are required to be reported to the student annually on the Internal Revenue Service’s (“IRS”) Tuition Statement, Form 1098-T. An award is processed by the Office of Scholarships and

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6 Internal Revenue Code section 117(c)(1) states that the exclusion from gross income for qualified scholarships and qualified tuition reduction plans shall not apply to that portion of any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship or qualified tuition reduction.

7 See example #2 in Section VII
Financial Aid by completing the Scholarship Authorization Form⁸. Scholarship payments processed in this manner will result in a credit for the specified amount on the student’s University account. If the incorporation of the scholarship into the student’s financial aid award resulted in a reduction in other aid, the scholarship payment may be offset by a reduction in other aid. Any net credit will be applied first toward any outstanding balance due on the student’s account for the current or any prior terms. If the scholarship results in a credit balance, a refund will be issued following the University’s standard credit balance refund process.

If a payment is not an award to be reported by the Office of Scholarships and Financial Aid, the payment amount is reportable income to the student. The method of reporting such income is determined by the student’s employment status with the University.

**Student employee:** A payment for services made to a student employee is treated as compensation subject to all applicable payroll taxes and withholding regardless of its purpose⁹. Each payment will be added with the student’s other wages and reported on a Form W-2 at the end of the calendar year.

A prize won by a student employee is treated as compensation subject to all applicable payroll taxes and withholding. The value of any prize won by a student will be added with the student’s other wages and reported on a Form W-2 at the end of the calendar year. The value of the prize is reported by the originator of the prize on the Cash Payments/Prize Form. The form must be signed by the recipient indicating their understanding of the taxable nature of the prize.

**Non-employee student:** A payment for services to a student who is not an employee of the University is still treated as taxable income, but must be paid via the Accounting Office¹⁰,¹¹. Each amount paid to a non-employee student will be reportable on a Form 1099-MISC at the end of each calendar year, if required¹².

A prize won by a student who is not an employee of the University is still treated as taxable income. The value of a prize is reported by the originator of the prize to the Accounting Office on the Cash Payments/Prize Form. The form must be signed by the recipient indicating their understanding of the taxable nature of the prize.

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⁸ Departments are responsible for entering a journal voucher to debit the appropriate departmental expense account and credit 148026-133010-210333-2001.

⁹ This type of payment would generally be submitted on a STU115 EPAF. Student employee EPAF assistance is available at: [http://cms.bsu.edu/about/administrativeoffices/careercenter/studentemployment/supervisors/handbook/epafhelp/epafstiphr](http://cms.bsu.edu/about/administrativeoffices/careercenter/studentemployment/supervisors/handbook/epafhelp/epafstiphr)

¹⁰ A non-employee payment is done through a “Direct Pay” request in SciQuest. Information on how to complete a direct pay request form can be found at: [http://cms.bsu.edu/-/media/WWW/DepartmentalContent/Information%20Technology/BannerTraining/Finance/SciQuest_DirectPay.pdf](http://cms.bsu.edu/-/media/WWW/DepartmentalContent/Information%20Technology/BannerTraining/Finance/SciQuest_DirectPay.pdf)

¹¹ This type of payment will likely be one-time events as continued services by a student would generally lend that student to being an employee of the University.

¹² Form 1099-MISC has a reporting threshold of $600. It is important to note that even if a payment does not cross the reporting threshold it is still an item of taxable income to the recipient.
VI. **EXAMPLES:**

1. A student employee is assigned to work 10 hours in the Office of University Controller. This student also volunteers to be a tutor for the Business College. In December, the Business College wishes to give the student a monetary payment for being an outstanding tutor. This payment cannot be an award because it was presented for past services performed: tutoring. Since this student is already on student payroll for their work in the Controller’s Office, this monetary payment for being a great tutor must go through payroll.

2. A student received a scholarship of $2,500. As a condition for receiving the scholarship, this student must serve as a part-time teaching assistant. Of the $2,500 scholarship, $1,000 represents payment for teaching. The University will issue this student a Form W-2 showing $1,000 as payments for services. The student used all the money for qualified education expenses. Assuming that all other conditions are met, $1,500 of the student’s scholarship is tax free even though it will be reported on a Form 1098-T.

3. Late Nite randomly selects a non-employee student at their Saturday night party to be the winner of an iPad. The iPad is a prize and is an item of taxable income. The value of the iPad must be reported to the Accounting Office and may be reported to the winner on a Form 1099-MISC if the reporting threshold is met.

4. The same facts as above, but the winner of the iPad is a student employee. The value of the iPad must be reported to the Office of Payroll and Employee Benefits via the Cash Payments/Prize Form to be recorded on the employee’s wage record. The value of the prize will be included in the amounts reflected on the employee’s Form W-2 for the calendar year in which the prize was won.

5. The Architecture Department has a design contest open only to students of its program. The winner of the contest will receive $1,000 which **must** be used for the student’s educational expenses. The winner of this contest should be awarded the $1,000 via the Scholarship Authorization Form.

6. Same facts as above, but the contest winner is free to use the $1,000 contest winnings as they please. This is now a prize so the Cash Payments/Prize Form will be submitted to the Accounting Office as an attachment to a Direct Pay. The Accounting Office will issue the student a Form 1099-MISC at the end of the calendar year to report the winnings.

7. Same facts as in #6 above, but the winner is a student employee. The Cash Payments/Prize Form will be submitted to the Office of Payroll and Employee benefits so that the amount will be reflected on the student’s Form W-2 at the end of the calendar year.

8. The English Department sponsors an essay contest open only to Ball State students. The winner of the contest will receive $25 which must be used for the student’s educational expenses. The winner of this contest should be awarded the $25 via the Scholarship Authorization Form.

9. Same facts as above, but the contest winner is free to use the $25 contest winnings as they please. This is now a prize so the Cash Payments/Prize Form will be submitted to the Accounting Office as an attachment to a Direct Pay. The Accounting Office will issue the
student a Form 1099-MISC at the end of the calendar year to report the winnings if this amount combined with any other payments crosses the reporting threshold.

10. Same facts as in #8 above, but the winner is a student employee. The Cash Payments/Prize Form will be submitted to the Office of Payroll and Employee benefits so that the amount will be reflected on the student’s Form W-2 at the end of the calendar year.

The examples offered above are not intended to be an inclusive or exhaustive list and situations outside of their set of facts are bound to happen. Attached to this written procedure is a decision tree which can be of assistance when beginning the process of releasing a payment to a student.

**Contact in Case of Questions:** Jenna Petefish, Tax Director of University Tax Compliance, Office of University Controller, 765.285.5621, jpetefish@bsu.edu

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