1. **Purpose of Guidance:**

The purpose of this guidance is to clarify the meaning of the word "stipend" for ECU's purposes in relation to sponsored projects, to determine the type of payment and designate the appropriate business processes for paying stipends, wages and other payments to individuals, to identify the institution's tax withholding responsibilities, and to note the types of payments to individuals that are not stipends.

2. **Definition:**

In broad terms, a stipend in relation to sponsored projects is a periodic or fixed sum of money paid to cover expenses and should not be based on performance or hours.

Stipend is a term used ubiquitously in higher education to describe payments to individuals for many different purposes. A sponsor's use of the term may or may not fit the above definition; however, the method of payment is frequently, but not always, the same. The widespread inconsistent use of the term often leads to confusion about the exact nature of the payment and how such payment should be processed within university business systems and with regard to Internal Revenue Service (IRS) requirements.

3. **Defining Stipends Versus Wages Versus Other Payments**
It is incumbent upon the ECU faculty member and the Hub Research Administrator/Unit Administrator, with oversight by the Office of Sponsored Programs, to insure the terminology included in the proposal properly defines the anticipated payments to individuals. The table below provides general guidelines for classification of payments to individuals. For questions and additional information, please consult with the Office of Sponsored Programs, who may consult with Financial Services. A meeting may be convened to ascertain additional details for a standing committee to review stipend payment tax implications.

General guidelines to help determine Stipends vs. Salaries/Wages:

<table>
<thead>
<tr>
<th>Stipends</th>
<th>Salaries &amp; Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assistance or support paid to university students; no work assigned.</td>
<td>Compensation for performance of assigned work.</td>
</tr>
<tr>
<td>Student-mentor relationship; no employer-employee relationship.</td>
<td>Employer-employee relationship.</td>
</tr>
<tr>
<td>No scope of work. No obligation to perform any assigned tasks or specific projects.</td>
<td>Scope of work assigned. Pay based upon hours or percentage of time worked performing assigned job specific duties.</td>
</tr>
<tr>
<td>A student receives non-scholarship financial support to do research solely for their thesis that is needed for their degree. The research is not for, nor does it provide, a benefit to a faculty member.</td>
<td>A faculty member is working on a project and pays a student to assist with the research. The student participation is not a degree requirement. If the student was not assisting with the research, the faculty member would have to hire someone else to do the work or do it himself/herself.</td>
</tr>
<tr>
<td>No Workers' Compensation coverage.</td>
<td>Workers' Compensation coverage.</td>
</tr>
<tr>
<td>As part of a degree program, a student is paid to participate in a summer internship program by an outside organization where he/she will focus on learning research techniques. The student will not be providing a service to the outside organization, but is in a learning role.</td>
<td>A student is paid as an intern in a department for providing research assistance. There is no program designed to train students as part of their degree requirements. The student is providing a needed service.</td>
</tr>
<tr>
<td>No grant and contract support unless the purpose of the award is to provide fellowship or scholarship.</td>
<td>Can be paid from grant and contract funds, and other internal funding sources.</td>
</tr>
<tr>
<td>Selection based upon a student’s merit, or through competition.</td>
<td>Selection by the individual Principal Investigator or Lead Researcher based on competency, skills, knowledge, and ability and coordinated with Human Resources.</td>
</tr>
<tr>
<td>Amounts based upon reasonable need or stipend limits set by the sponsor of the training or fellowship grant.</td>
<td>Amounts restricted by University Human Resources wage policies.</td>
</tr>
</tbody>
</table>

4. Types of Payments To Individuals:

A. Stipends = Payments to Individuals in Support of Education, Training, and Professional Development = Contractual Services Payment Request Form
Financial payments to individuals from sponsored projects are considered "stipends" only if clearly designated as such by the sponsor; are designated for education, training, or professional development purposes; and/or are budgeted as participant support costs. In all cases, payment cannot be conditioned on the individual's provision of services to the institution (i.e., the individual is not acting as an employee).

In fact, some federal agencies have established grant programs for institutions of higher education specifically to provide research training to early career scientists and clinicians, educational support for students pursuing a particular course of study, or professional development. Agencies clearly state that these recipients should not be compensated through the payroll process. Except for H-1B and TN visa holders and some international visitor participants (see Section 5 below), a Contractual Services Payment Request Form should be completed and submitted to Accounts Payable to initiate stipend payments. Depending upon the circumstances, Accounts Payable will determine if the individual receiving a stipend will receive either a 1099 tax form or a "Non-Compensatory Stipend Payment Letter" at the end of the tax year.

B. Salaries/Wages = Employer/Employee Relationship (Control) = Human Resources and Employment Action Form

1. General Compensation: In most cases, anyone who performs services for ECU is an employee if the University controls what will be done and how it will be done. This is so even when the employee has freedom of action. The following criteria help define an employee/employer relationship. If any of these criteria are met, generally the person would be considered an employee and payments to them are subject to tax withholding through the payroll system.

   a. Behavioral Control: Does the organization control or have the right to control what the worker does and how the worker does his or her job?
   b. Financial Control: Are the business aspects of the worker's job controlled by the payer? (These include things like how the worker is paid, whether expenses are reimbursed, who provides tools/supplies, etc.)
   c. Type of Relationship: Are there written contracts describing the relationship the parties intended to create, or employee type benefits (i.e., pension plan, insurance, vacation pay, etc.)? Will the relationship continue and is the work performed a key aspect of the business?

2. Compensation for Provision of Services on Grants and Contracts: For the vast majority of sponsored programs, individuals are paid from the grant or contract to provide services to assist the institution in meeting its obligations to the sponsor. Individuals in various positions, including faculty, professional and technical staff, graduate students, undergraduate students, and sometimes part-time or temporary employees provide such services in an employer/employee relationship. The University's Human Resource procedures regarding employment, tax withholding, and benefit provision apply for these individuals, and they will receive a W-2 tax form.

Examples of remuneration to individuals from sponsored programs that are often erroneously referred to as stipends (with correct terminology and payment process responsibility noted in parentheses) include:

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- Salary portion of a graduate assistantship (payroll action through the Graduate School)
- Summer compensation for 9-month faculty (summer payroll through Human Resources)

C. Other Payments = Payments for Services that are not Stipends or Wages

None of the following remuneration examples are considered stipends, and to avoid confusion, should never be called such in any verbal or especially written documents:

- Master teachers in a K-12 setting who receive payment for mentoring new teachers (contractual service through Materials Management)
- Incentive payments to individuals participating in research (various methods; see procedures at Payments to Research Participants [Human Subjects])
- Payment to an individual to provide expert services to the University (contractual service through Materials Management)
- Scholarship payments to individual for credit hours (consult the office of Financial Aid)
- Scholarship payments to the institution on behalf of the student for credit hours (consult the office of Financial Aid)
- Any other payment to an individual that is not for support of research training or other educational or training program participation

5. Stipend Payments – 1099 Tax Form Reporting Versus Non-Compensatory Stipend Payment Letter

As noted above in section 4A, recipients should not have a work requirement nor provide any type of service for or on behalf of ECU. Individuals receiving these payments are not ECU employees or contractors. Determining whether stipends are reported to the IRS by the University via a 1099 tax form, or not reported to the IRS (with a Non-Compensatory Stipend Payment letter sent to the recipient), is based upon the purpose of the stipend.

Non-compensatory stipend payments are payments to students (ECU and/or non-ECU students), strictly for educational enrichment opportunities, and to enhance their educational experience.

1099 reportable stipend payments are payments to students or fellows that require certain project accomplishments or completion of duties that do not meet the definition of employment. An example of a 1099 reportable stipend payment is the...National Institutes of Health (NIH) National Research Service Awards (NRSA) Program.

International visitor participants need to complete a tax analysis for tax withholding and may be 1042-S reportable. Non-compensatory stipend payments to H-1B and TN visa holders must be made through the payroll system so that taxes can be withheld in accordance with U.S. law.

6. Standing Committee to Determine Stipend Payment Tax Implications, Compensations vs. Payment to Support Individual’s Training

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A standing committee of representatives from the Offices of Financial Services, Compliance Management, Grants and Contracts, and Sponsored Programs will review complex or unclear situations and will determine appropriate payment procedure based on tax reporting requirements, unique specifications of the sponsoring agency’s policies, and the intended purpose for and use of payments. The committee will convene on an as needed basis.

A. Committee Members (or their designated representatives):

• University Controller
• University Tax Advisor
• Director of Sponsor Programs
• Director of Grants and Contracts
• Disbursement Manager
• Payroll Manager
• Project Director

B. Depending upon the fact pattern the resulting decision could be to:

a. Utilizing the payroll system and withhold payroll taxes on the payments. Issuance of a W-2.
b. Issue checks to the individual via the Contractual Services Payment Request Form, without withholding payroll taxes and reporting the income to the recipient and the IRS via a 1099 form.
c. Issue checks to the individual via the Contractual Services Payment Request Form, without withholding payroll taxes or reporting the income to the IRS. In this scenario, Accounts Payable will send a “Non-Compensatory Stipend Payment” letter to the recipient, advising him/her to contact a tax advisor regarding any tax liability.

7. Considerations for Stipend Recipients

Stipend recipients may have tax liability for the stipend income, and this liability may be so great for individuals receiving large stipends that estimated tax payments during the year could be required to avoid underpayment penalties. ECU does not offer tax advice to stipend recipients. The stipend recipient is responsible for determining his/her tax liability and should consult his/her tax advisor as necessary to ensure compliance with tax laws.
Julie, Steve, Kathie and Barbara

Attached is the final Stipend Compensation Guidance. My position and the Director of Grants and Contract position are listed as the persons that have oversight on this guidance. Julie, Kathie, Steve and Barbara have edited this document prior to your arrival, feel free to add your comments, and let me know if this document is acceptable to you?

I am ready to publish on financial services website and grants and contracts websites.

Vinnie