

## **Payments to Foreign Nationals**

Payments to visitors from outside the United States are subject to a different set of taxation and withholding rules than payments to U.S. citizens. Please refer to the "[Payments to Foreign Nationals Overview flowchart](#)" for additional information.

Since resident and nonresident aliens are taxed differently, it is important to determine status. The determination of whether an international visitor qualifies as a nonresident alien in any given year is made by their host institution using data provided by the visitor. The [Glacier](#) system assists in making this determination.

International visitors are considered a nonresident alien for any period that they are neither a U.S. citizen nor a U.S. resident alien. If you are not a U.S. citizen, you are considered a nonresident alien unless you meet one of two tests. You are considered a U.S. resident alien for tax purposes if you meet either the green card test or the substantial presence test for the calendar year (January 1-December 31).

## **Scholarship/Fellowship payments to Nonresident Aliens for Tax Purposes**

As stewards of UW funds, care should be taken to ensure the proper processing of scholarship/fellowship payments to nonresident aliens for tax purposes.

If a payment is made in return for any service (teaching, research, administrative, or clerical) rendered by the student, the payment constitutes compensation and must be processed through payroll. Determining whether a payment constitutes scholarship/fellowship income or wages (compensation for services rendered) cannot be based on the source of funds available. Scholarship accounts should be charged when payments are determined to be scholarships, and salary accounts used when payments constitute compensation for services rendered.

Payments to nonresident aliens to further their education, which do not have a service requirement and do not represent compensation for services to the university, are scholarship/fellowship aid/support payments. Payments of this type which do not pay for qualified expenses (qualified scholarship) are 1042-S reportable and normally subject to 14% federal tax withholding. The 14% rate applies to visitors in F, J, M or Q immigration status. These payments will flow through the Payroll and Glacier systems.

Many non-service scholarship/fellowship aid/support payments are given to cover the general cost of education, such as tuition, books, room and board. These payments will flow through the Payroll and Glacier systems. Institutions have the option to set up a payroll general deduction code so that instead of generating a check to the fellow/scholar recipient, the funds could be transferred and credited to the appropriate student system account.

Under section 117 of the Internal Revenue Code a "qualified scholarship" is one that is used by a degree-candidate to pay "tuition and fees paid to enroll in, or to attend, an educational institution" or "fees, book, supplies, and equipment required for the courses at the educational institution". Only these qualified scholarship payments made to nonresident aliens are not subject to withholding or 1042-S reporting, and processed accordingly through accounting or by following your institution's remission process. For example, a tuition waiver to a degree-candidate would qualify and not be subject to 1042-S withholding/reporting.

Any portion of the scholarship/fellowship aid/support payment that does not directly pay for tuition, fees, book, supplies, and equipment required for the course is considered non-qualified, is possibly subject to withholding and reportable on Form 1042-S. For example, a housing waiver would be nonqualified and subject to 1042-S withholding/reporting. For non-degree candidates and post-doctoral research scholar/fellows, the entire grant is subject to withholding and reporting. These payments are processed through the Payroll and Glacier systems. Institutions have the option to set up a payroll general deduction code so that instead of generating a check to the fellow/scholar recipient, the funds could be transferred and credited to the appropriate student system account.

The definition of a "degree-candidate" is broader than you might think for section 117 tax purposes. It includes those who are actually enrolled in a degree-seeking program, but also covers enrolled students who are not actually seeking a degree, as long as the educational institution offers degrees and is properly accredited. For example, an individual who receives a one year fellowship to study at a UW System institution is a "candidate for a degree" for purposes of section 117 even though the individual will not receive a degree at the end of the fellowship because the UW System is an accredited educational institution that offers degrees.

### **Other Payments to Foreign Nationals**

Other payments to foreign nationals are 1042-S reportable and may be subject to withholding. These include independent contractor services such as honorariums, research subject participants, non-employment related prizes and awards, and royalties. Please refer to the ["Required Documents for Payment, including applying for U.S. Individual Taxpayer Identification Number \(ITIN\) flowchart"](#) for additional information. These payments will be processed through accounting and not the Payroll system.

### **Tax Forms and Publications for International Visitors**

Each year the UW sends Form 1042-S to many of our students and fellow/scholars from outside the U.S. This form contains important tax information that may be necessary for the visitor to complete his or her U.S. income tax return document. The UW expects to issue Forms 1042-S in February of each year.

International visitors from certain countries use forms to apply for "treaty benefits" if they are eligible. See [Publication 901, US Tax Treaties](#) for further information on those treaties.

Links to IRS forms and instructions are included here for your reference. [IRS Form W-8BEN](#) - Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding, and [IRS Instructions](#) for Form W-8BEN.

### **Other Helpful IRS Publications**

[Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities](#)

[Publication 519, US Tax Guide for Aliens](#)

### **Links to Process Flowcharts**

[Payments to Foreign Nationals Overview flowchart](#)

[Process for Foreign Nationals Paid through UW Payroll flowchart](#)

[Required Documents for Payment, including applying for U.S. Individual Taxpayer Identification Number \(ITIN\) flowchart](#)