Guidelines for Understanding
Compensatory vs. Scholarship Stipends

When the University of Central Florida (UCF) pays a student or a participant in a sponsored project, use the following guidelines to determine whether the funds should be classified as a compensatory stipend or a scholarship stipend. Payments must be designated correctly for a variety of reasons.

A: Is payee contractually obligated to accept employment with grantor or designated organization after stipend period?¹

Yes: Go to R1. No: Go to B.

B: Is payee participating in activities on UCF or external grantor’s premises?

Yes: Go to C. No: Go to D.

C: If payee wasn’t available, would UCF or external grantor pay someone to perform same functions as payee?

Yes: Go to R1. No: Go to D.

D: Do payee’s activities benefit UCF or external grantor more than de minimis, or insignificant?²

Yes: Go to E. No: Go to F.

E: Is activity directly connected to UCF’s academic or related extracurricular student program?³

No: Go to R1. Yes: Go to F.

F: Is payment contingent upon payee completing practicum, field experience, research, training or other activities?⁴

Yes: Go to R1. No: Go to G.

R1: Payments are compensatory stipends. Employment is paid via UCF Payroll Office.

R2: Payments are scholarships. A UCF student is awarded to assist with education. Paid through UCF Student Financial Assistance Office. Note: All financial aid rules and regulations apply.

R3: Payments are awards to non-UCF students. Paid through UCF Accounts Payable, Finance and Accounting. Note: IRS form W-9 required for payee.

G: Is payee enrolled in UCF classes in semester of payment?

Yes: Go to R2. No: Go to R3.

Tax Information
All income is taxable regardless of whether it is classified as a scholarship or compensatory stipend; however, amounts classified as scholarship stipends are eligible for potential exclusion from income under Internal Revenue Code Section 117 if the funds are used to pay for tuition, required fees, books, and course-required school supplies. UCF has no withholding responsibilities for scholarships (except as related to international students). UCF does have tax reporting and withholding responsibilities for compensatory stipends. Notice: If a governmental tax authority determines that funds paid as a scholarship were actually compensatory, the originating UCF department may be financially responsible for resulting tax assessments, which could be 30 percent or more of the stipend plus penalties and interest.

Interns? Payments to interns are compensatory. Pay interns through the payroll system of the company for whom the intern provides services.

Questions? Call the Finance and Accounting tax office, (407) 882-1000. The facts and circumstances of each case may need to be evaluated in depth.

Footnotes
1 - Contractual provision requiring payback of amounts received in lieu of employment is contractual obligation of employment.
2 - Examples of benefits to grantor or UCF include but are not limited to (a) working on grant that has deliverable to grantor, i.e. research report; (b) performing function that directly enhances programs or activities of UCF or grantor; or (c) participation in activity that generates revenue for UCF or grantor.
3 - An academic or related extracurricular student program in which scholarships are awarded as standard practice at American colleges and universities around the country, etc., sports and music programs.
4 - A yes answer is where UCF can immediately withdraw or cancel the stipend if the payee discontinues participation in the activity after starting it. Conversely, a no answer would indicate that the stipend will continue through the current semester or academic year even though the payee does not participate in the activity.