

Job Aid for Making Fellowship vs Employee Determinations

Generally, a fellowship or scholarship (hereafter “fellowship”) payment is one made to aid a person in the pursuit of studies or research. However, if a payment is made for the required performance of teaching, research, or other services, it must be treated as employee wages.

The University of Minnesota is responsible for correctly classifying these payments. Misclassifying employees as fellows, or vice versa, may expose the University and the payment recipients to significant adverse tax consequences or unintended financial aid implications. For example, a department misclassifying an employee as a fellow could be responsible for payroll tax withholding (FICA, federal and state income tax) for both the employee and

the University—typically more than 40% of the amount paid. Conversely, if a department misclassifies a fellow as an employee, both the fellow and the University will pay unnecessary FICA taxes of about 15% of the amount paid.

This job aid will help departments in making fellowship vs. employee determinations. It is not a required form, but departments are strongly encouraged to use it and to keep the form to document their conclusions. You can use the aid more than once for someone who has multiple sources of payments, or use it for a group of recipients in the same circumstances. Note that payments to people working under a graduate assistant appointment are classified as wages, and this form does not apply.

Section A

Recipient _____ Department _____

Funding Source _____ Date _____

Preparer _____ Advisor/Appointing Authority _____

Section B

Were the payments made under one of the following?

- The National Research Service Award (NRSA) fellowship program (such as T31 or T32 programs)
- The National Health Service Corps Scholarship Program
- The Armed Forces Health Professions Scholarship and Financial Assistance program

If yes, the payments should be treated as a fellowship for tax purposes. If no, continue to Section C.

Section C

Were the payments made under one of the following specific types of National Institute of Health research grants (applies to these NIH programs only)?

- Research Project Grant (R01)
- Exploratory/Development Research Grant Award (R21)
- NHLBI Investigator-Initiated Resource-Related Research Project (R24)
- Summer Research Experience Program (R25)

If yes, the payments should be treated as wages. If no, continue to Section D.

Section D		Employee	Fellow
1.	Is the individual required to perform past, current, or future service for the U as a condition of receiving the payment (such as teaching or research)?	_____ Yes	_____ No
2.	Is the payment that is made to the individual charged to a research agreement or other U contractual obligation?	_____ Yes	_____ No
3.	Does the funding source prohibit the payment of fellowships with the funds or require that payments to individuals be for compensation for personal services?	_____ Yes	_____ No or NA

If any of the answers is yes, the payment should be treated as wages. If none of the answers is yes, continue to Section E.

Section E		Employee	Fellow
1.	Even if the individual is not required to perform services to receive the payment, do the activities that the person conducts primarily (a) benefit the U, or (b) further the individual's training and skill development?	_____ (a)	_____ (b)
2.	Are the areas of the individual's projects primarily (a) determined solely by an advisor or supervisor with no discretion by the individual, or (b) determined in consultation between the individual and the individual's faculty advisor and/or faculty mentor?	_____ (a)	_____ (b)
3.	Does the individual serve primarily as a replacement or substitute for an employee, such as a laboratory technician?	_____ Yes	_____ No
4.	Is the individual required to primarily perform his/her activities according to certain planned time schedules, e.g., a specified number of hours a day or week and a specified number of weeks during the year?	_____ Yes	_____ No
5.	Is the individual subject to the same level and type of supervision over the conduct of his/her activities as a U teaching, research, or similar graduate assistant employee?	_____ Yes	_____ No

If three or more of the fellow boxes are marked, the payment should be treated as a fellowship for tax purposes. **If fewer than three fellow boxes are marked**, the payment should be treated as wages.

Questions regarding using this job aid may be directed to the Tax Management Office at taxhelp@umn.edu or 612-624-1053.

Please note: Fellowship award letters should indicate that payments are to support the individual's studies or research and that no services are required to receive the payments. Language such as the following should appear in the award letter, and the program itself must reflect this provision: This is a nonservice fellowship award. The individual receiving this award is not required to perform any services in exchange for the award. Accepting this award may affect eligibility for need-based financial aid through the Office of Student Finance.