

ACCOUNTING MANUAL

EXHIBIT F

The following is a sample letter to **postdoctoral scholars** (U.S. citizens and residents) who are recipients of a fellowship, i.e., **postdoctoral scholar - fellow** or **postdoctoral scholar - paid direct**, informing them of the general tax rules regarding their award, including their reporting and recordkeeping responsibilities. The letter may also be sent to non-employee clinical fellows.

Name of postdoctoral fellow
Address

Dear _____:

According to our records, you are the recipient of a fellowship awarded in connection with your training at the University of California, _____. Recipients of such awards include postdoctoral fellows, clinical fellows, and similar recipients. The purpose of this letter is to inform you about the general treatment of your award for tax purposes.

In some cases, the fellowship funds are paid directly to you, while in other cases the funds are provided by a third party on your behalf. For example, an award intended to pay the recipient's expenses may be paid directly to the recipient, or it may be paid by the third party directly to the University and credited to the recipient's University account. In either event, however, the payment is treated for tax purposes as made to the fellowship recipient and will be subject to the tax rules discussed below.

Under Internal Revenue Service (IRS) regulations, a fellowship is not taxable only if the funds are used for required tuition, fees, books, supplies, equipment, or other mandatory fees for classes or enrollment. Any portion of a fellowship used to pay for other expense (e.g., room and board, travel, health insurance premiums, and other living expenses) must be included in your taxable income for the year. Because postdoctoral fellows are not enrolled and do not pay tuition, you are not covered by this exception.

Health benefits provided by the University to postdoctoral fellows and their dependents are subject to income tax with respect to the premiums that are paid by the University, less any amounts paid by

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the recipient. Benefits provided to the domestic partner of a postdoctoral fellow also are taxable whether or not the domestic partner qualifies as a dependent. For more information on the tax treatment of fellowship grants, see IRS Publication 970 (Tax Benefits for Education, which can be found on the IRS website at <http://www.irs.gov/formspubs/lists/0,,id=97819,00.html>).

IRS regulations do not permit the University to withhold income taxes on the taxable portion of fellowship payments to citizens or permanent residents. Therefore, depending upon the taxable amount of your award, you may need to make estimated income tax payments prior to the filing of your tax return. For more information on the rules pertaining to estimated tax payments, see IRS Publication 505 (Tax Withholding and Estimated Taxes), which can be found at the same IRS website address shown above.

Please note that this letter is only intended to introduce you to the tax rules applicable to recipients of fellowships. The University does not provide tax advice; you should contact your personal tax advisor with any questions or concerns.