Taxability of Prizes and Awards
President’s Engagement Prizes

December 9, 2015
Disclaimer

The University is not permitted to provide personal tax advice. This presentation is an overview of what to expect. Any questions related to your personal tax liabilities and filing, please consult a tax professional.
Disbursements and Use of Prize Funds

- Disbursed in two separate payments
  - June - to cover July through December expenses
  - January - to cover January through June expenses

- Use of funds
  - Project implementation expenses
  - Living expenses
UPENN’s Reporting Requirements of President’s Engagement Prizes

- US Citizens and resident aliens
  - All prizes of $600 or greater are reportable by the University on Form 1099-MISC, Box 3 ‘Other Income’
    - Payments will cross calendar years, will receive 1099-MISC in 2016 and 2017
  - Recipient must complete a W-9 ‘prior’ to disbursement of funds
UPENN’s Reporting Requirements of President’s Engagement Prizes (Cont.)

- **Nonresident Aliens**
  - University is required to withhold 30% UNLESS the individual is exempt from taxation under a treaty
  - Amounts are reportable to the recipient on Form 1042-S and reported as ‘Other Income’; Foreign Person’s U.S. Source Income Subject to Withholding
    - Payments will cross calendar years, will receive 1042-S in 2016 and 2017 (May be subject for change depending on immigration status)
  - Recipient must complete the University’s Foreign National Information Form and provide a copy of the following documents:
    - W-8BEN
    - I-94 Document or Stamp of Entry from passport
    - Passport Photos
Taxability and Reporting of Recipient President’s Engagement Prizes

- US Citizens and Resident Aliens
  - Must report 1099-MISC income on Form 1040; US Individual Income Tax Return
  - Amount is subject to Federal Income Tax and potentially subject to State Income Tax
    - Qualified Tuition Expenses are deductible and will reduce the amount of income tax you may have to pay
      - These expenses include tuition, fees and other related expenses for an eligible student
    - Non-qualified expenses are taxable
      - These expenses include room and board, insurance, medical expenses, transportation, and/or similar personal, living or family expenses
Taxability and Reporting of Recipient President’s Engagement Prizes

- Nonresident Aliens
  - Must report 1042-S Income on Form 1040NR – US Nonresident Alien Income Tax Return
  - A nonresident alien is subject to US income tax only on certain income from sources within the US
    - Qualified Tuition Expenses are deductible and will reduce the amount of income tax you may have to pay
      - These expenses include tuition, fees and other related expenses for an eligible student
    - Non-qualified expenses are taxable
      - These expenses include room and board, insurance, medical expenses, transportation, and/or similar personal, living or family expenses
  - Please note, may be subject to taxation in home country. Please consult tax professional.
Other Tax Considerations Cont.

- Obtain your Federal Business Tax ID
- Determine your Federal Tax Obligations
  - Income Tax
  - Estimated Taxes
  - Self-Employment Tax
  - Employment Taxes
  - Excise Tax
- Determine your State Tax Obligations
  - Sales and Use Taxes
  - Other State and Local Taxes
  - Business Licenses
- Determine When Your Tax Year Starts
Other Tax Considerations Cont.

- **Establishing an Limited Liability Corporation**
  - LLC is a hybrid type of legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership.
    - “Owners” of an LLC are referred to as “members.” Depending on the state, the members can consist of a single individual (one owner), two or more individuals, corporations or other LLCs.
  - All federal income taxes are passed on to the LLC’s members and are paid through their personal income tax.
    - While the federal government does not tax income on an LLC, some states do, so check with your state’s income tax agency.