1. **What is the university’s tax status for Federal income tax purposes?**

Texas State University-San Marcos is a member of the Texas State University System and is a public university of higher education as recognized by Texas Education Code, Chapter 61.003. As such, it is a political subdivision of the State of Texas.

According to [Internal Revenue Code Section 115](http://www.taxalmanac.org/index.php/Internal_Revenue_Code:Sec._115._Income_of_States%2C_municipalities%2C_etc), the income of states, municipalities, or any political subdivision thereof, is not considered taxable gross income for Federal tax purposes when the income is obtained to further the exempt purpose and mission of the university.

Accordingly, the university has a similar tax status as a 501(c) 3, and is generally qualified to receive grants and other contributions restricted to such organizations.

Contact the [Tax Specialist](http://www.txstate.edu/payroll/taxspec/) in the Payroll & Tax Compliance office to request a copy of an IRS letter regarding the University’s tax-exempt status with a cover letter from the university to be sent via email.

**2. What is "unrelated business income" and what are some common examples of such taxable income?**

The university must pay tax on net income generated as a result of "unrelated business activity". This is defined as a revenue producing activity that (1) is not directly related to accomplishing the university’s educational and research missions, (2) is conducted for the primary purpose of earning a profit, and (3) competes with commercial businesses that provide similar services to the public.

The Tax Specialist will review these activities to determine if they are subject to unrelated business income tax, and may ask for a financial statement of income and expenses related to the activity. The net income may be added to the university's 990-T tax return if applicable, and if taxes are due, they will be charged to the department that generates the income.

Questions regarding the tax status of a particular revenue-producing activity should be addressed to the Tax Specialist at [my13@txstate.edu](mailto:my13@txstate.edu) or 245-8708

**3. What do I do if my department is being charged sales tax?**

Refer to the Accounts Payable webpage, [Sales Tax on Purchases](http://www.txstate.edu/gao/ap/resources/Texas-Sales-Taxes-on-Purchases.html).

A Sales Tax Exemption Certificate must be completed and signed by the person who purchases the product for the university. The correct forms may be found on the Tax Specialist webpage, [Resources and Forms](http://www.txstate.edu/payroll/taxspec/forms.html). Although a sales tax exemption number is not required on the Sales Tax Exemption Certificate, a vendor may request the number anyway. That number can be found on the Resale Tax Exemption Certificate form, available on the same webpage.

If you are purchasing items for resale for the university, use the [Resale Tax Exemption Certificate](http://www.txstate.edu/payroll/taxspec/forms/contentParagraph/0112/document/Texas+Sales+%26+Use+Tax+Resale+Certificate.pdf).

**4. Are employees of Texas State exempt from paying hotel tax when traveling?**

The university is exempt from paying state hotel tax when employees travel in-state, but is not exempt from hotel tax when employees travel outside the state of Texas.

The hotel will request that you give them the Hotel Tax Exemption Certificate when you check in. This form may be found on the Travel Office webpage under [Resources and Forms](http://www.txstate.edu/gao/ap/travel/forms.html). See the Travel Office webpage for further instructions on hotel tax exemption.

If you need the university's Federal Employer Identification Number (EIN), you may call the Tax Specialist at 245-8708. The university's EIN may only be used for official Texas State University business.  Student organizations should use their own tax identification number. [Refer to TSUS Rules and Regulations, Chapter III, Section 6. (16).](http://www.tsus.edu/about/policies.html)

**5. What is an ITIN?**

The Individual Taxpayer Identification Number (ITIN) is a tax identification number issued to a nonresident or resident alien, a spouse or a dependent that is filing a U.S. tax return and is not eligible to receive a U.S. social security number. The ITIN is only good for tax purposes, and does not designate eligibility for employment or citizenship in the U.S...

**6. How is the ITIN used?**

The ITIN can be used to apply for exemption from tax withholding for citizens of countries that have a tax treaty with the U.S. The university must withhold Federal tax from payments to nonresident aliens unless the individual has successfully applied for tax exemption with the IRS.

**7. How does someone apply for an ITIN?**

To obtain an ITIN, the foreign person should [read the instructions on the IRS website](http://www.irs.gov/instructions/iw7/ch01.html) and complete [IRS Form W-7, Application for IRS Individual Taxpayer Identification Number](http://www.irs.gov/pub/irs-pdf/fw7.pdf).

**8. How can I find information about tax liabilities related to scholarships and fellowships?**

[Tax Topic 421 - Scholarship and Fellowship Grants](http://www.irs.gov/taxtopics/tc421.html) and [Publication 970 - Tax Benefits for Education](http://www.irs.gov/publications/p970/index.html) can be viewed or downloaded from the Internal Revenue Service website. Answers to most of your questions are addressed in the IRS’s various publications.

Go to website <http://www.1098-t.com/> for information on education tax credits.

**9. How can I obtain a copy of my 1098-T?**

The 1098-T is now available on the <http://www.1098-t.com/> website. A student or a parent may print the 1098-T form by logging in to the website and setting up an account.  Click on "Access My Record" and fill in the questions. If you have not created a password, click “Log In” instead of entering a password and the site will allow you to create a password. Once you create a password, the password must be used to access the account.

**10. what is a grant stipend, and is it taxable?**

A grant stipend is a payment made from a grant or fellowship to support educational or training expenses that will enhance the individual’s level of competence in a particular area.

A grant stipend may or may not be taxable. Grant stipends are not reportable to the IRS by the university on a 1099-MISC, but they may still be taxable to the recipient and required to be included in the taxpayer's income. The recipient should consult a private tax consultant if necessary to determine taxable income.

Generally, the portion of a grant stipend that covers educational expenses required for enrollment or attendance at an educational institution is not taxable. Educational expenses include tuition, fees, books, supplies, and equipment that are required of all students in the particular course of instruction. The portion of a grant stipend that exceeds educational expenses and is intended to cover living expenses is taxable as income to the recipient.

Non-U.S. citizens may not be eligible for grant stipends. If the recipient is a non-U.S. citizen, taxes will be withheld on the portion of the stipend that is taxable.

Grant stipends are paid through the Accounts Payable office. A payment voucher must be submitted for payment. A grant stipend is usually not a scholarship. However, if a grant stipend or fellowship payment is construed to be a scholarship, it will be routed through Financial Aid. Scholarships are reported through Financial Aid and are included in the student's 1098-T.

Travel expenses may be included in a grant or fellowship. Travel reimbursement requests submitted with receipts to grant participants are not reported on a 1099-MISC by the university. However, the recipient is responsible for determining whether paid travel is taxable as income on their tax return.

**11. Are honorariums taxable and is the process the same as that for contracted services?**

A payment of an honorarium to an individual must conform to the laws of the State of Texas. Honorariums are payments given to an individual in gratitude for visiting the campus and contributing to the mission of the university.  The university is prohibited from paying an honorarium to Federal or state officials, but travel can be reimbursed.

An honorarium is reportable to the IRS, although tax will not be withheld unless it is paid to a foreign person. Refer to [PPS 03.09.03, “Non-Resident Alien Contracted Services”.](http://www.fss.txstate.edu/policies/03_09_03.html)

U.S. citizens will receive a 1099-MISC if the amount exceeds $600.00 for the calendar year. The payment process would follow the same procedure as for “Contracted Services”. See [UPPS 03.04.01 “Contracted Services”.](http://www.txstate.edu/effective/upps/upps-03-04-01.html)

**12. Are gifts allowed and what is the process?**

Non-Employee: Prizes and awards must conform to State of Texas and Texas State University regulations. The gift or award must be approved and unrestricted funds must be used. Generally, all awards, prizes, and gifts are subject to taxation and withholding pursuant to Internal Revenue Code. The individual will receive a 1099-MISC if the total amount paid to that individual during the calendar year exceeds $600.00. Submit FORM #FS-03 –Contracted Services Payment Voucher.

Employee: Cash awards, prizes, and monetary gifts to employees **in any amount** are considered wages subject to FICA and federal income tax withholding and must be paid directly to the employee through the payroll department.  Do not submit a Personal / Contracted Services Payment Request form, use a PCR form.

Student: Cash awards may be considered scholarship awards. Each case should be reviewed separately. Prizes are not considered wages earned by the student, but may be reported on a 1099 to the student if over $600.

Gift Cards: According to university policy, purchase of a gift certificate or gift card is not allowed except for Human Subject research studies. The University’s policy on awards is covered in [UPPS 03.01.03](http://www.txstate.edu/effective/upps/upps-03-01-03.html).