



Air Force
Summer Faculty Fellowship Program
Administered by:
Systems Plus, Inc.



MEMORANDUM

To: Air Force Summer Faculty Fellowship Program Participants
From: Systems Plus Program Team
Subject: Tax Treatment of Summer Fellowships

PLEASE READ CAREFULLY!

With the passage by Congress of the Tax Reform Act of 1986 (Public Law 99-514), Systems Plus, Inc. has sought advice of legal counsel with respect to the tax treatment of awards received by summer faculty fellows and their accompanying graduate students.

Accordingly, you are advised of the following:

Systems Plus must report all monies paid to you under the Fellowship Program. This includes monthly stipends, travel, and relocation costs. Some reimbursable expenditure may be deducted such as relocation costs and travel to meetings and conferences.

Systems Plus will provide you and the Internal Revenue Service (IRS) with the informational Form 1099 recording the amount paid to/for you during the tax year. Under current laws and regulations, you are responsible for submitting quarterly estimates of income taxes to the IRS and paying the amounts due. You may have a similar liability with respect to state and/or local taxes depending upon the state and/or locality where you reside.

Appropriate IRS publications or your personal tax advisor should be consulted for clarification concerning your Social Security and other tax liability. See enclosed memo "Taxability of Research Grant."



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TAXABILITY OF RESEARCH GRANTS

When Systems Plus, Inc. awards Research Associateships to summer faculty fellows and their accompanying graduate students, these individuals often request guidance in determining whether they are subject to tax for self-employment tax purposes. This document is intended to help address that need and provide a brief overview of the tax treatment of Research Associateships for self-employment tax purposes.

WHAT IS TAXABLE TO A RECIPIENT?

When the Research Associateships are awarded to summer faculty fellows and their accompanying graduate students, the awards are subject to tax for income tax purposes, but may or may not be subject to tax for self-employment purposes. Income is taxed for self-employment tax purposes only if net income is derived from a trade or business.

Whether Research Associateships to summer faculty fellows are subject to self-employment tax will depend on the facts and circumstances surrounding the award, the conditions attached to the award, and whether the individual is performing services as a condition for receiving the award. Any portion of a Research Associateship paid for the performance of services would constitute payments in connection with the conduct of a trade or business and would be subject to self-employment taxes. When services are not rendered as a condition of the award, Revenue Ruling 60-378 provides that such awards are not considered income from trade or business, and therefore are not subject to self-employment taxes.

Systems Plus RECIPIENTS

Based on the award process at Systems Plus, awards are not necessarily conditioned upon the performance of services or the provision of the results of research. Systems Plus does not claim any rights to the results of the research or the right to publish the results. The awards are generally provided to further a general body of knowledge, as opposed to providing a special benefit only to Systems Plus. As defined under Revenue Ruling 60-378, this summer research award is taxable income, but is not subject to self-employment taxes. If, for any reason, the award requires the recipient to teach, or perform research that benefits Systems Plus, then the award is subject to self-employment tax. Systems Plus does not have authority to make tax rulings; therefore, Systems Plus strongly recommends that the fellow consult a tax advisor or an IRS representative to determine the proper treatment for the award.