

Questions & Answers from 3/12/07 Tax Seminar UCSC – Grad Student Association

Question: What do I need to declare as income? Stipends, travel grants, fellowships, loans?

Answer: Loans are not income, so no taxes on it. There may be a tax benefit when you pay the interest on the loan.

Fellowships are income, and you report the income on the wages line and add it to any w-2 income you receive. This income is not subject to social security taxes.

Stipends are income and you will either receive a w-2 (wages) or a 1099-misc (contract work is self-employment requiring Schedule C and Schedule SE).

Travel grants could be income or not. Contact the grant administrator to see if your particular travel grant will be reported to IRS as W-2 (wages), 1099-misc (contract work) or reimbursement of expenses (not reportable to IRS as income).

Question: What part of fellowship income is tax exempt?

Answer: Fellowship income is reported the same as w-2 wages, but is not subject to social security. In the same way as w-2 wages, your standard deduction and personal exemption amounts are not taxable. For a 2006 tax return, if you are single and can claim your own personal exemption, then your standard deduction is \$5150 and your personal exemption is \$3300. If your income (from all sources) is greater than your standard deduction, then you are required to file a tax return... even if you do not owe taxes. You may find your fellowship income on a W-2 or on a 1098-T, depending on the administration of the fellowship.

Question: If I do not receive a W-2 for internship Stipend income, can I assume the income is not taxable?

Answer: I would assume that you did not receive your mail. Call the administrator for the stipend and verify that no W-2 was sent. Because some stipends are not taxable, you need to verify with the source to determine the tax reportable status of this money.

Question: Is money earned outside the U.S. taxable in the U.S.? If I received worldwide income, am I required to file a U.S. tax return? I went to school in England and married a nice man. I have moved back to the U.S. to continue my schooling, but he has not yet come to the U.S. He has only worked in England and I have only worked in the U.S. If my spouse lives outside the U.S. and has no U.S. Social Security number, does his foreign income need to be reported?

Answer: By getting married this way, you have created something like a corporation that has to report combined income to two governments.

If you are a citizen of the U.S or resident alien, you must correctly report all of your worldwide income. When you do this correctly, you will be able to declare the foreign taxes paid. In the United States, we do not generally tax you on foreign income for which you already paid the foreign taxes, so you are required to report the income and then you claim a credit for the foreign taxes paid.

You will need to request an ITIN number from IRS using form W-7P. You can put the request on top of your tax return and mail them together in the first year. They will respond in the mail with an ITIN for him. Use this ITIN for all future correspondence with IRS.

Question: How do I report fellowship income if I have no Social Security number? I came to this country in September, got a fellowship and now have to file a tax return.

Answer: Complete your tax return and report your fellowship on the W-2 wages line. Complete a W-7P request for a taxpayer ID. Mail these together to IRS. They will process the request for a taxpayer ID and then process your tax return.

Question: How do I report income from more than one state? How do I become a California resident?

Answer: IRS does not care what state you reside in. So for your federal tax return, just combine your income (w-2 wages).

Regarding California residency, there is a possible confusion. Residency for school admissions and for resident tuition is an administrative determination by the school.

For California state taxes, you are a resident on the day you move to California with the intent to stay. Some other states have income taxes too, so in the year that you move from one state to another, you are required to file two state tax returns and one federal tax return. Each state will collect taxes for the income that you earn in that state, but you will have to declare all income to both states and then divide it up and compute taxes as part-year residents of each state.

Question: From small business income, what is reportable?

Answer: You must report your business income as soon as your gross receipts exceed \$400, before any expenses are taken out.

Question: How does a 1098T relate to a W-2? Should I receive both? What if the amount disagrees with the amount I actually received? What if the amount reported on the 1098T is more than the amount of tuition I paid?

Answer: W-2 income is reported as wages. You should receive either a W-2 or a 1098-T from the school, but not both, from a single fellowship income source.

If the amounts do not agree, then you need to find out why. Talk with your business office to get the full explanation.

If you have no W-2, and your 1098-T shows scholarships less than the tuition and then you have fellowships or stipends exceeding the remaining tuition, then you need to use the worksheet to compute the taxable amount to report on the wages line.

Question: Explain lifetime education credit.

Answer: Briefly, if you pay your tuition, and if you have earnings and owe taxes, then those taxes can be reduced by the lifetime learning credit. The credit is 20% of the tuition you paid, up to your tax liability.

Question: How do I report business expenses? What can be claimed as an expense?

Answer: You report business expenses with business income on Schedule-C to compute net income. The law says “ordinary and necessary” business expenses are allowed. Then on Schedule-SE, you start with the net income to compute self-employment taxes (Social Security and Medicare). The net income from business is then transferred to the 1040. The social security taxes are transferred to the taxes owed. There is a deduction for half of the self-employment taxes on the 1040.

Question: Explain how to report the amount of income on a 1099 when I do not own a business.

Answer: This is a business so... if the amount is \$400 or less, then enter it on the “other income” line 21. Schedule-C is used if the income is greater than \$400. You may owe Social Security taxes too.

Question: How do I contribute to, and report an IRA?

Answer: Go to a financial institution, open an IRA and contribute to it. If it is a Roth IRA, then there is no effect unless the “Saver’s Credit” can be used. The Roth IRA is the best deal. If you open a Traditional IRA, then you will make an adjustment to your income on 1040 or 1040A in the adjustments to income section. This will reduce your income for tax purposes.