

Name of student  
Address

According to our records, you are the recipient of a scholarship or fellowship awarded in connection with your enrollment at the University of California, Santa Barbara. The term "scholarship or fellowship" includes grants, waivers, and other forms of "gift aid," which typically do not need to be repaid. The purpose of this letter is to inform you about the general treatment of your scholarship or fellowship for tax purposes as well as your reporting and recordkeeping responsibilities. The information provided, below, applies regardless of whether the scholarship or fellowship is from the University of California or from a third-party source.

In some cases, the scholarship or fellowship funds are paid directly to you, while in other cases they are credited directly to your University student account. For example, a scholarship from a third-party source that is intended to pay your fees and tuition may be paid directly to you, or the third party may pay the University directly on your behalf and the University, in turn, credits your University student account. Whether the scholarship or fellowship payment is paid to you directly or to the University on your behalf, for tax purposes, the payment is treated as made to you and is subject to the tax rules discussed below.

Under Internal Revenue Service (IRS) regulations, you do not have to pay taxes on a scholarship or fellowship to the extent the funds are used for required tuition, fees, books, supplies, equipment, or other mandatory fees for classes or enrollment. The amount of health insurance premiums you pay to the University in order to be enrolled is also considered a required fee. To the extent you use scholarship or fellowship funds to pay for these types of required fees and expenses, the funds should be excluded from your taxable income. Regardless of how the scholarship and fellowship funds are paid to you (i.e., either directly or on your behalf) you are required to maintain records and documentation showing that you used all or a portion of your scholarship or fellowship funds for these required purposes.

Any portion of a scholarship or fellowship used to pay for other expenses (e.g., room and board, travel, and other living expenses) should be included in your taxable income for the year. Again, this would be the case regardless of how the funds were paid. Therefore, you may have to pay income taxes on the portion of your scholarship or fellowship used for such expenses. For more information on the tax treatment of scholarships and fellowships, 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 scholarship or fellowship payments. Therefore, depending upon the taxable amount of your award, you may need to make estimated income tax payments prior to filing 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.

You should make the determination regarding whether your scholarship or fellowship is taxable based upon your individual facts, irrespective of how the University may have applied your award funds to the amounts you owed the University. To the extent that you determine that a portion or all of your scholarship or fellowship funds are not subject to tax, you should retain receipts and other documents that show the total amount of your qualifying (i.e., non-taxable) expenses.

Pursuant to the Taxpayer Relief Act of 1997, the University is required to file a Form 1098-T (Tuition Statement) information return to IRS for most students. If a return is filed, the University must also provide a copy of the return to the student showing the information reported. Depending on the UC campus you attend, either the amount of qualified tuition and related expenses paid or the amount billed is reported (in either Box 1 or Box 2 of the 1098-T). Among other information, the University also is required to report the amount of all scholarships and fellowships (referred to by the IRS as “scholarships or grants”), from all known sources, that the University processed on your behalf. The aggregated amount reported for these types of awards is without regard to whether any portion may be taxable. The amounts reported on the 1098-T represent a summary of the qualified tuition and related expenses, as

well as any scholarships and fellowships you received, based on the information on file at the UC campus you attended. This information may be of use to you in calculating the amount of the higher education tax credit or deduction you may be eligible to claim, but your personal financial records serve as the official supporting documentation for your federal income tax return. For more information about the education tax credit or deduction, see IRS Publication 970, which is available on the IRS website shown above.

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

Sincerely,  
Designated Campus Official

Vice Chancellor for Student Affairs  
Graduate School Deans  
Campus Financial Aid Officers