

IRS tax law and Federal Financial Aid regulations regarding coverage of room, board, and other items for University of Richmond students September 17, 2007 r.9/2008

IRS related issues

Generally, a student employee receives compensation for work done for the university. The amount of the compensation is based on the wage rate or salary for the job (determined by the requirements of the job) and the amount of time worked during the pay period.

There have been situations where the employer wants, in addition to the established wage rate, to provide room and/or board for their student employee. In most cases relative to student employees at Richmond, employers cannot cover room and board charges for the student employee because it does not fall under IRS allowed exceptions. There are several jobs that can cover room and board since the job itself requires that the student employee live on campus in order to be able to perform the job. Currently, these include Summer Camps and Conferences employees and Resident Assistants. (The request to transfer funds to directly cover room and board charges for these student jobs is processed through the Financial Aid Office.)

If the room and board charges cannot be covered under IRS rules, then providing room and board to a student employee is a taxable event and the amount provided would have to be processed through student payroll. However, Richmond does not allow employers to increase established wage rates in order to cover room and/or board. Pay rates must be equitable and based on the job itself.

In order to provide equitable pay and to provide a wage that allows a student to pay for room and board charges during the summer pay periods, Richmond implemented a summer wage rate schedule for Summer 2007. Essentially, for the summer pay periods, all hourly student jobs paid a wage rate that was \$3.00/hour higher than the academic year wage rate for the same job. This was successful and the summer wage schedule will continue in future years, with the amount varying.

Salaried jobs for students also exist, such as research grants and fellowships. A portion of the total salary may be intended for room and/or board and may be paid as long as it is processed through student payroll (and therefore taxed). However, before processing such payments, the Student Employment Office will ensure that the total compensation is within established and allowable wages for that job category or grant.

Richmond currently has situations where students remain on campus for short periods of time after the end of spring term, or return to campus several weeks prior to the start of fall term. In some of these cases (such as Orientation Advisors or the Football Team), the student is on campus for the benefit of the university. IRS rules do not consider such situations to be taxable events because it is for the benefit of the university and because the amounts are relatively small. Richmond will allow departments to cover room and/or board costs for such students, *as long as they are not student employees for that department*. (Student employees are already paid that higher wage rate to help offset room and board costs.)

Summary of Richmond policies relative to IRS related issues:

Employers cannot directly cover room or board charges for student employees except for Resident Assistants and Summer Camps and Conferences workers.

Hourly employees: The higher summer wage rate paid to student employees during the summer helps to offset the cost of room and board that must be paid by the student. Hourly wages cannot be increased to cover room and board.

Salaried employees: Total pay may include an amount for room and/or board for research grants, as long as the total compensation is deemed fair and equitable by the Student Employment Office.

Financial Aid related issues

Federal regulations governing financial aid require that any and all assistance provided to a student during periods of enrollment (when classes are in session) must be considered in determining eligibility for financial aid. This includes covering room, board, books. But, in order to ensure compliance with the federal regulations, it is good policy to always check with the Financial Aid Office when providing a student with any funding.

Our general policy is that the Financial Aid Office must be made aware of all such instances in which the university or a department or office of the university intends to provide funds—*other than compensation for work*—to a student during a period of enrollment. A determination will be made as to whether or not the funds must be counted for financial aid purposes. If so, the payment will usually be processed through the Financial Aid Office so it is transparent to all concerned.

Summary of Richmond policies relative to Financial Aid regulatory issues:

During periods when classes are in session, the Financial Aid Office must be made aware of a department's intention to provide any funds to students (except compensation for work).

There are several offices on campus that can act as gatekeepers for the IRS and Financial Aid issues outlined above. These include Housing, Food Services, Auxiliary Services, Accounts Payable, Student Accounts, Office of International Taxation, Payroll and Student Employment. Employees of these offices should be aware of the issues and policies so they can alert Payroll or Financial Aid to potential situations that fall outside our stated procedures.