

Taxes

DISCLAIMER: This is not tax advice. This page is largely anecdotal and has *NOT* been prepared by a CPA or tax professional. Though CPAs and accountants have been queried for their opinions at several times, no general agreed upon consensus has been met as to the one “right” way to handle the AAPF stipend and allowance. Treat this as a rough guideline, but please consult your own tax preparation professional. We cannot be held accountable for the information listed here. No one who has contributed to this page is an accountant, nor plays one on TV.

- [What we \(think we\) know](#)
- [What is “generally” agreed upon](#)
- [What is more speculative and situation-dependent](#)
- [What are “generally” agreed upon research allowance expenses](#)
- [Where can I find estimated tax form information?](#)
- [Do I have to annualize my estimated taxes? What does that even mean!?](#)
- [Any other thoughts or advice?](#)

What we know

1. Neither fellowship nor allowance are reported to the IRS.
2. The NSF will not provide any forms (e.g., 1099), requested or otherwise.
3. The NSF cannot give us tax advice. The Program Officer isn’t allowed to say anything, and asking them for opinions or feedback places them in a tight situation at the NSF.

What is “generally” agreed upon

1. Fellows can report fellowship stipend as “other income” on tax return.
2. Fellowship payments are exempt from social security taxes; they are not considered wages or self-employment income. However, we must pay income tax.
3. We must pay quarterly estimated federal and state income taxes. Dates are usually Jan 15, Apr 15, Jun 15, Sep 15.

What is more speculative and situation-dependent

There are many opinions and strategies on how to handle the research allowance:

- Fiscally conservative option
 1. All money received is considered income whether spent or not.
 2. We're not subject to self-employment tax as the AAPF does not meet the code definition of trade or business.
 3. Deductions should be posted on Schedule A subject to 2% and also to standard deduction.
 4. Could be reported on line 7 or line 21. (Often just report on line 21 and take your standard deduction).
 5. Report on a calendar year your monies received and expenses paid.

- Another option, used by at least one fellow
 1. Do not include "business related expenses" coming out of the allowance as income. Those are deductible anyway.
 2. Health insurance premiums not technically taxable (always taken out pre-tax in a normal pay stub/benefits situation). If you end up paying health premiums out of taxed income getting the tax deduction back can be difficult.
 3. Any portion used for retirement is taxable. *Careful on Roth-IRAs*: Contributions are supposed to be post-tax but also from "earned income," and the IRS doesn't consider our fellowships earned income.
 4. Any other use of the grant that isn't "expenses against the grant" should be reported as taxable income.

- Yet another option, used by a few current and past fellows (according to Frank Federmann, CPA for NRAO at some point in the past)
 1. "Your fellowship does not constitute business income and therefore is not subject to business expense deductions."
 2. "The taxable portion of the grant (gross revenue less expenses against the grant) should be reported as net grant income on the other income line of your 1040."
 3. "Therefore, I would report the net on the 1040 as described above, with a statement attached to the return explaining your situation and I would net the total cost of the computer against the grant gross."

This brings up the question of what are allowed research expenses that can be paid for out of the allowance.

What are “generally” agreed upon research allowance expenses (according to past AAPF program office Ed Ajhar)

1. “Because the research/benefits (‘fellowship’) allowance can be treated like other federal grant funds, you mostly need to understand what are ‘allowable’ or ‘not allowable’ expenses to use these funds. (This is why you must be careful to use US carriers for air travel, for example.)”
2. “‘Benefits’ are an ‘allowable’ expense on federal grants; this is partly what indirect expenses are about on regular grants. Indirect expenses that an awardee institution recovers will typically fund things such as health insurance and employer-provided retirement benefits, including FICA. This is why it is okay to charge these types of expenses against your research/benefits allowance.”
3. “There are OMB circulars which you can find on the Internet that detail allowable and not allowable expenses. Those documents are actually readable.”

Also see the question titled “Ways To Spend Your Research Fund” on this page for other ways to use your research fund.

Where can I find estimated tax form information?

You will soon find yourself familiar with the following publications:

State forms: These vary state by state. [See below](#) for some useful ones to consult.

Federal forms:

- Your tax dollars pay for important government services, like “bridges to nowhere” and astrophysics postdoctoral fellowships. You will almost certainly need to fill out one of the following at the end of the year. They are listed in order of increasing complexity, but check to make sure you qualify for the right form (in particular, the 1040EZ has some rules which may make you ineligible).
 - [1040EZ \(instructions\)](#)
 - [1040A \(instructions\)](#)
 - [1040 \(instructions\)](#)
- General consensus seems to be that the stipend we get paid is covered under the “Taxable Scholarship” section of the tax code. You should almost certainly read IRS Publication 970, [“Tax Benefits for Education”](#), specifically the chapter on [“Scholarships and Fellowships”](#) and its sections on taxable fellowships and how to report them. Quoting from that text, last updated in 2013, *Form 1040. If you file Form 1040, report the taxable amount on line 7. If the taxable amount was not reported on Form W-2, print “SCH” and the taxable amount on the dotted line next to line 7.* This advice also applies to a 1040A; change this to line 1 for a 1040EZ.

- Since income tax is not withheld from the fellowship stipend, you will almost certainly need to pay estimated taxes during the year. The IRS is kind enough to provide a huge [Publication \(no. 505\)](#) about this very topic. It will explain all the details about filling out [Form 1040-ES](#), the form used to calculate and report estimated taxes. *Estimated taxes are generally due on January 15, April 15, June 15, and September 15.*
- If you do not pay the same estimated tax payment in each quarter, you will likely need to annualize your payments, to demonstrate that you do not owe a penalty. This is especially applicable to first year fellows, since it's kind of hard to estimate your taxes before you are informed of the award. See the [section below](#) for much more on this topic.
- The IRS has a change of address form ([Form 8822](#)) that you can fill out when you move. I don't know if it is necessary, but it can't hurt.
- Here are some forms and publications from the IRS that you will want to read (these are just links to items available at www.irs.gov):

IRS Publication 970: Tax Benefits for Education	<p>This form describes how to record taxable scholarship income, among other things. See Chapter 1.</p>
Publication 505: Tax Withholding and Estimated Tax	<p>Information on paying estimated taxes</p>
Form and Instructions: 1040-ES Estimated Tax for Individuals	<p>This has both the instructions and the coupons you need to send in with your estimated tax payments. Don't forget that April 15 is the FIRST payment of the new year, not the last payment of the old year. If you mess up and owe the IRS money you will have to make up for that AND submit your new quarterly payment on April 15.</p>
Form 2210: Underpayment of Estimated Tax by Individuals, Estates, and Trusts	<p>This is the form to use if your estimated tax payments differ during the year, or if you only started making estimated tax payments mid-year.</p>
Withholding Calculator	<p>This is an online worksheet (they claim they don't record any of your information) that is supposed to be slightly more accurate than the worksheet in 1040-ES.</p>

Do I have to annualize my estimated taxes? What does that even mean!?

When you make estimated tax payments, the government requires that you do so promptly each quarter. If the amount varies each quarter, they don't necessarily know whether you paid correctly, or waited until the end of the year to pay your tax. This applies to state taxes (if applicable) as well as federal tax! If your payment amount varies during the year, or if you didn't make the first payment or three (as is often the case for first-year fellows), you need to "annualize" your payments, and report this with your year end taxes.

Federal taxes: Form 2210, "[Underpayment of Estimated Tax by Individuals, Estates, and Trusts](#)" ([instructions](#)). Part IV is the key here. This form is filed with your year-end taxes.

State taxes: Generally speaking, you will have to file your return at the end of the year, calculate estimated taxes during the year, and, if applicable, justify your annualization at year-end. The following table may help, but consult your local tax code to make sure this is right. In particular, remember to submit forms from the right year! Most of these links are from 2005/2006. Also, remember that many states have part-year resident forms that differ from full-year resident forms.

State	Year-end: "1040"	Estimated Taxes: "1040-ES"	Underpayment/Annualization: "2210"
AZ	Form 140 (2005)	Form 140-ES [instructions] (2006)	Form 221 (2005)
CA	Form 540 (2005)	Form 540ES [instructions] (2006)	Form 5805 (2005)
CO	Form 104 (2005)	Form 104-EP (2006)	Form 204 (2005)
CT	Form CT-1040 (2005)	Form CT-1040ES (2006)	Publication IP 2005(27)/Form CT-1040AES (2005)
IL	Form IL-1040 (2005)	Form IL-1040-ES (2006)	Form IL-2210 (2005)
MA	Form 1 (2005)	Form 1-ES [instructions] (2006)	Form M-2210 (2005)

NY	Form IT-201 (2005)	Form IT-2105-MN [instructions] (2006)	Form IT-2105.9 (2005)
OH	Form IT-1040 (2005)	Form IT-1040-ES (2006)	Form IT-2210 (2005)
TX	No State Income Tax	Zero	0 – 0 = 0
WI	Form 1 (2005)	Form 1-ES [instructions] (2006)	Schedule U (2005)

Any other thoughts or advice?

Consider Making Monthly Federal Tax Payments

Beginning circa 2005, the IRS opened the “Electronic Federal Tax Payment System (EFTPS)” that allows individuals and businesses to make tax payments for any IRS tax form; this includes 1040-ES (estimated taxes). It does not include state income taxes yet.

EFTPS allows you to make payments as often as you wish (quarterly, monthly, weekly) *without* having to pay a service fee for the transaction.

[Circa Dec 2007] I (Kurtis) have been using this for 16 months now, and have not had any problems or any audits, though I am coming up on my first full calendar year now; hopefully the “no problem” status will remain.

I’ve been making monthly payments (100% of my annual estimated tax / 12) each time my fellowship payment arrives. It is possible to set up automatic payments, but I’m not *that* brave. But, given the (so far) trouble-free nature and a way to avoid having to save money for a quarterly payment, I’d heartily recommend using the service.

As with all of this advice, be sure to check for yourself that you are making the proper payments to the proper people on time.

To learn more and to register, go to: www.eftps.gov.