

**MAU Paid Health Care Insurance Premium for Graduate Fellowships and  
Teaching/Research Assistants**  
**A Joint Document from: Payroll and Benefit Accounting, Statewide Office of  
Human Resources and the Statewide Controller's Office**  
**September 2007**

Case: An MAU wants to pay the student health insurance premium for graduate students on a Teaching Assistantship, Research Assistantship, or Fellowship. Health Care insurance coverage is required of all students.

Questions:

Is the amount paid for health care insurance taxable or reportable?

What account codes should be charged for this insurance premium amount?

Is the premium an allowable cost under OMB Circular A-21?

Sources: IRC Section 106(a)

IRS, Publication 15-B, February 2007, pg 6

IRC Section 117

**Nonresident Alien Tax Compliance**, Arctic International, 2007, pg 96

OMB Circular A-21

Analysis and conclusion:

There are four different categories of students which this insurance payment could impact:

1. A student who is a US citizen, permanent resident, or resident alien for tax purposes who is employed as a research assistant or teaching assistant:
  - a. These students are considered employees and their wages are paid through payroll.
  - b. According to IRS Publication 15-B, the amount paid to the insurance company on behalf of the employee is not subject to federal, social security, or Medicare tax withholding (See IRC 106(a)). The amount for the insurance premium that is paid directly to the vendor would not be reported on the individual's W2.
  - c. In A2c of OMB Circular A-21 it recognizes the dual role of students engaged in research and the resulting benefits to sponsored agreements are fundamental to the research effort and therefore should be recognized in the application of A-21.
  - d. Generally, these payments will be allowable under Section J45 of A-21. These premium payments are not scholarships and therefore the first sentence of paragraph J45a of A-21 does not apply. However, these payments are treated as "...other forms of compensation paid as, or in lieu of, wages..." and are allowable costs on sponsored programs when the criteria of paragraphs J45a(1) – J45(5) are met.
  - e. Use account code 1949 – Health Insurance Premium Grad Assistants.

2. A student who is a nonresident alien for tax purposes who is employed as a research assistant or teaching assistant.
  - a. These students are considered employees and their wages are paid through payroll.
  - b. According to IRS Publication 15-B, the amount paid to the insurance company on behalf of the employee is not subject to federal, social security, or Medicare tax withholding (See IRC 106(a)).
  - c. Since there is an exception per the Internal Revenue Code from taxable wages for the amount paid for health insurance, there are no taxable wages under the nonresident alien tax system. The amount for the insurance premium that is paid directly to the vendor would not be reported on the individual's W2 or 1042s forms.
  - d. In A2c of A-21 it recognizes the dual role of students engaged in research and the resulting benefits to sponsored agreements are fundamental to the research effort and therefore should be recognized in the application of A-21.
  - e. Generally, these payments will be allowable under Section J45 of A-21. These premium payments are not scholarships and therefore the first sentence of paragraph J45a of A-21 does not apply. However, these payments are treated as "...other forms of compensation paid as, or in lieu of, wages..." and are allowable costs on sponsored programs when the criteria of paragraphs J45a(1) – J45(5) are met.
  - f. Use account code 1949 – Health Insurance Premium Grad Assistants
3. A student who is a US citizen, permanent resident or resident alien for tax purposes who is a fellowship or scholarship recipient.
  - a. These students are not considered employees and are paid through accounts payable.
  - b. According to IRC section 117, the amount paid to the insurance company on behalf of the student is considered a "qualified scholarship". These amounts are considered qualifying fees since all students attending the university are required to have proof of insurance or purchase insurance through the university. The amount for the insurance premium that is paid directly to the vendor would not be subject to tax withholding.
  - c. Generally, these payments will be unallowable under Section J45 of A-21. Since these payments are considered qualified scholarships, they are allowable costs on sponsored programs only when the criteria of the first sentence of paragraph J45a of A-21 are met.
  - d. Use account code 6221 - Fellowship.
4. A student who is a non resident alien for tax purposes who is a fellowship or scholarship recipient.
  - a. These students are not considered employees and are paid through accounts payable.
  - b. According to IRC section 117, the amount paid to the insurance company on behalf of the student is considered a "qualified scholarship". These amounts are considered qualifying fees since all students attending the university are required to have proof of insurance or purchase insurance

through the university. The amount for the insurance premium that is paid directly to the vendor would not be subject to tax withholding.

- c. Since there is an exception per the Internal Revenue Code from taxable wages for the amount paid for health insurance, there are no taxable wages under the nonresident alien tax system. However, the amount for the insurance premium that is paid directly to the vendor would be considered a “qualified scholarship” and must to be reported on the NRA Scholarship spreadsheet that is sent to SWOHR each semester for tracking per the IRS requirements. The amounts would not be reported on the individual’s 1042s form.
- d. Generally, these payments will be unallowable under Section J45 of A-21. Since these payments are considered qualified scholarships, they are allowable costs on sponsored programs only when the criteria of the first sentence of paragraph J45a of A-21 are met.
- e. Use account code 6221 - Fellowships.

**In Summary:**

- This amount is not subject to federal withholding or reporting as long as the payment is made to the vendor for the health care insurance premium.
- Students receiving a scholarship or fellowship and who are considered nonresident aliens for tax purposes must have the premium amount recorded and tracked by SWHR as a “qualified scholarship”, but it is not reported on the 1042s form. This is the same process used for tuition waivers and other “qualified scholarship” payments.
- Generally, the premium payment is allowable under OMB Circular A-21 when paid for Teaching and Research Assistants, and is unallowable for Fellowship recipients. When the payment is not a scholarship, the payment may be allowable under paragraphs J45a(1) – J45(5). When treated as a scholarship, the premium payment may be an allowable cost under the criteria of paragraph J45a of OMB Circular A-21.