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# Scholarships and Fellowships

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## Introduction

Your scholarship or fellowship may be tax free.

If the total amount of your scholarship is tax free, do not include it in income on your tax return. If your only income is a completely tax-free scholarship, you do not have to file a return. If all, or any part, of your scholarship is taxable, include the taxable amount in your income. See *How To Complete*, later.

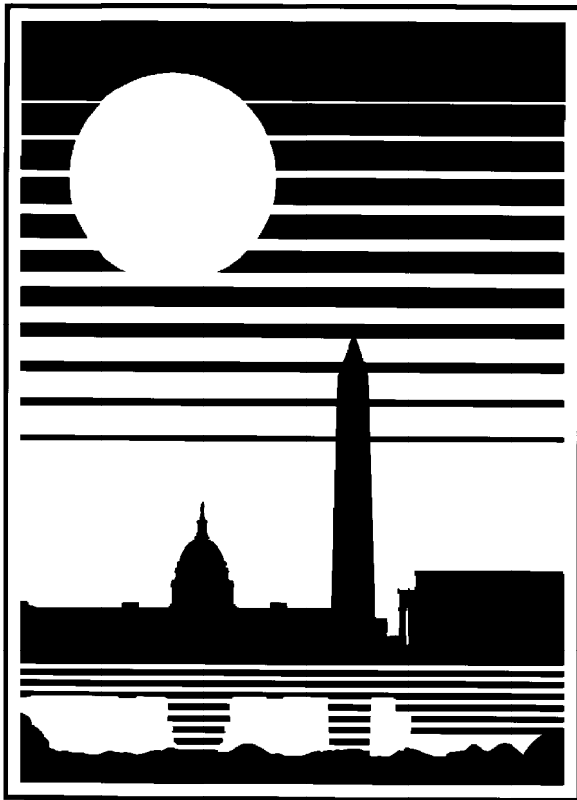
This publication is for U.S. citizens and resident aliens who are studying, teaching, or researching in the United States or abroad under scholarships and fellowships. If you are a nonresident alien, get Publication 519, *U.S. Tax Guide for Aliens*.

This publication covers the rules for scholarships and fellowships and provides certain other information of interest to students.

Generally, U.S. scholars and teachers abroad have the same tax obligations as their counterparts in the United States. However, special benefits and rules may apply to them. These are discussed later under *Individuals Abroad*.

### Summary of rules.

- You must be a candidate for a degree for your scholarship to be tax free.
- Only amounts for tuition, fees, books, supplies, and equipment are tax free. Amounts for other expenses, such as room, board, and travel, are taxable.
- The part of any grant that represents payment for teaching, research, or other services is taxable.



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- From your FAX machine, dial ▶ (703) 487-4160.
- See *How To Get More Information* in this publication.

## Useful Items

You may want to see:

### Publication

- 54** Tax Guide for U.S. Citizens and Resident Aliens Abroad
- 501** Exemptions, Standard Deduction, and Filing Information
- 505** Tax Withholding and Estimated Tax
- 508** Educational Expenses
- 514** Foreign Tax Credit for Individuals
- 519** U.S. Tax Guide for Aliens
- 525** Taxable and Nontaxable Income
- 901** U.S. Tax Treaties

### Form (and Instructions)

- 1040** U.S. Individual Income Tax Return
- 1040A** U.S. Individual Income Tax Return
- 1040EZ** Income Tax Return for Single and Joint Filers With No Dependents

See *How To Get More Information* near the end of this publication for information about getting these publications and forms.

## What is a Scholarship or Fellowship?

You may be able to treat as tax free all or part of the amounts you receive as a scholarship or fellowship grant.

You cannot take a double benefit by treating tax-free scholarship or fellowship amounts as tax-free foreign earned income or foreign housing amounts. For information on these exclusions from income, see Publication 54.

## Scholarships

A scholarship is generally an amount paid for the benefit of a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or graduate.

**Educational institution.** An educational institution maintains a regular faculty and curriculum and has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

**Scholarship prizes.** Cash scholarship prizes won in a contest are not scholarships or fellowships if you do not have to use the prizes for educational purposes. These prizes are taxable regardless of how you use the money. A prize of a scholarship that you can use only when enrolled as a candidate for a degree at a college is a qualified scholarship.

**Grants.** Pell Grants, Supplemental Educational Opportunity Grants, and Grants to States for State Incentives are scholarships that are tax free to the extent they are used for

qualifying tuition and course-related expenses during the grant period.

**Athletic scholarships.** Athletic scholarships can be tax free. See *Qualified scholarship or fellowship*, later, for the part of your athletic scholarship that may be treated as tax free.

## Fellowships

A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research.

## General Information

A qualified scholarship or fellowship grant is tax free only if you are a candidate for a degree at an educational institution.

**Qualified scholarship or fellowship.** A qualified scholarship or fellowship is any amount you receive as a scholarship or fellowship grant that is used under the terms of the grant for:

- Tuition and fees paid to enroll in, or to attend, an educational institution, or
- Fees, books, supplies, and equipment that are required for the courses at the educational institution.

The fees, books, supplies, and equipment stated above must be required of all students in your course of instruction to be tax free.

**Incidental expenses.** An amount you receive for incidental expenses is not a tax-free qualified scholarship. Incidental expenses include expenses for room and board, travel, research, and clerical help. They also include expenses for equipment and other items that are not required for either enrollment or attendance at an educational organization, or in a course of instruction at the educational organization.

**Example.** You receive a scholarship from State University to enroll in a writing course. Suggested supplies for the writing course include a word processor. Amounts used for suggested supplies are not qualified scholarship expenses. You cannot include the cost of a word processor to determine the amount received as a qualified scholarship.

**Terms of grant.** Your scholarship or fellowship grant can still qualify as tax free even if the terms do not provide that it be used only for tuition and course-related expenses. It will qualify if you use the grant proceeds for tuition and course-related expenses. However, if the terms of the grant require its use for other purposes, such as room and board, or specify that the grant cannot be used for tuition or course-related expenses, the amounts received under the grant cannot be excluded from income.

**Does your grant qualify?** If there is some doubt about the tax treatment of your grant, consult the grantor. The grantor may have received advice from the IRS about the appropriate tax treatment of the grant. You can also

contact the District Director of Internal Revenue for the district in which you live. Be sure to ask for the information as soon as possible so that you can receive an answer in time to file your return. If you request this advice by mail, give a complete statement of all the facts.

If your grant does not qualify as a tax-free scholarship or fellowship, you must include it in gross income. You can deduct related expenses that are ordinary and necessary business expenses.

**Candidate for a degree.** The term “candidate for a degree” means a student (full- or part-time) who:

- Attends a primary or secondary school or is pursuing a degree at a college or university, or
- Attends an educational institution that is authorized or accredited to provide a program that is acceptable for full credit toward a bachelor’s or higher degree, or to provide a program of training to prepare students for gainful employment in a recognized occupation.

**Payment for services.** You must include in income the part of any scholarship or fellowship, including any tuition reduction, that represents payment for past, present, or future teaching, researching, or performing other services. This applies even if all candidates for a degree must perform the services to receive the degree.

**Example 1.** You received a scholarship of \$2,500. As a condition for receiving the scholarship, you must serve as a part-time teaching assistant. Of the \$2,500 scholarship, \$1,000 represents payment for your services. The grantor gives you a Form W-2 showing \$1,000 as income. You used all the money for tuition and course-related expenses. Assuming that all other conditions are met, \$1,500 of your grant is a tax-free qualified scholarship. The \$1,000 you received for teaching is taxable.

**Example 2.** You are a candidate for a degree at a medical school. You receive a government grant for your medical education and training. The terms of the grant require you to perform a period of obligated service in a designated medically underserved area of the country following completion of your medical studies. A substantial penalty applies if you do not comply. The entire amount of your grant is taxable as payment for services in the year it is received.

**Service academy cadets.** An appointment to a United States military academy is not a scholarship or fellowship. Payment you receive as a cadet or midshipman at an armed services academy is pay for personal services. Include this pay in your income in the year you receive it. Active duty pay is also taxable.

**Veterans’ benefits.** Payments you receive for education, training, or subsistence under any law administered by the Department of

Veterans Affairs (VA) are tax free. For information about the deduction of educational expenses when you receive tax-free VA benefits, see Publication 508, *Educational Expenses*.

**Children of faculty members.** For education provided to children of faculty members, see *Qualified Tuition Reduction*, later.

**Student loans.** Although a student educational loan is usually not a scholarship, it is generally tax free.

**Forgiven loan.** If your loan was forgiven, you are generally considered to have received taxable income equal to the amount forgiven in the year of forgiveness. However, certain forgiven student loans may be tax free. See *Cancellation of Student Loan Debt*, later.

**Deductible educational expenses.** If your grant qualifies as a tax-free scholarship or fellowship, you must reduce your deductible educational expenses by the amount of the grant you receive for the educational expenses. Your educational expenses, such as tuition, fees, books, and supplies, are ordinarily deductible if they are used to maintain or improve skills in your present work, or to retain your job or rate of pay. See Publication 508.

## Cancellation of Student Loan Debt

If a student loan is canceled because you work in a profession as stated in the loan agreement, you do not have to include it in income. The loan must have been given by:

- A government (federal, state, or local),
- An exempt public benefit corporation that has assumed control of a state, county, or municipal hospital whose employees are considered public employees under state law, or
- An educational organization under an agreement with any of the above entities.

**Example.** Bob Rose received \$10,000 under a medical educational loan program. Under the terms of the program, one-fifth of the loan (or \$2,000) is canceled for each year he practices medicine in a qualifying state hospital. He does not include these amounts in income.

The cancellation of a student loan under section 465 of the Higher Education Act of 1965 is not taxable income.

## Student as Dependent

Special rules apply if you are claimed as a dependent on another person's tax return.

**Exemption for a student dependent.** Generally, an exemption for a dependent cannot be taken if the dependent had gross income equal to or more than the personal exemption amount for the year. This rule does not apply, however, if the dependent is a full-time student who is under age 24 at the end of the year. (The other dependency tests still apply.) If you cannot be claimed by another taxpayer, you can claim yourself as an exemption on your own return.

**Your standard deduction.** If you can be claimed as a dependent on another person's return, the standard deduction on your own return is generally limited. See the tax return instructions to figure your standard deduction.

**Estimated tax.** You may have to pay estimated tax on all or part of your scholarship or fellowship. See *Estimated Tax*, later in this publication.

## Qualified Tuition Reduction

A qualified tuition reduction is tax free.

The term *qualified tuition reduction* means the reduction in tuition allowed or provided to an employee of an educational institution for

the education of the employee (or any person in the following list treated as the employee) by any educational institution. **The tuition must be for education below the graduate level.** But see *Graduate education*, later. The term does not include a reduction that represents payment for services.

The following individuals are employees or treated as employees:

- 1) A current employee,
- 2) A former employee who retired or left on disability,
- 3) A widow or widower of an individual who died while an employee,
- 4) A widow or widower of a former employee who retired or left on disability, or
- 5) A dependent child or spouse of any person listed in (1) through (4), above.

If both parents have died, and if one of the parents qualified as an employee under (1) through (4) above, their child, if under age 25, can qualify to exclude a tuition reduction from income.

A dependent child of divorced parents is treated as the dependent of both parents.

Qualified tuition reductions apply to officers, owners, or highly compensated employees if benefits are available to employees on a nondiscriminatory basis. The exclusions will apply if the tuition reduction benefits are available on substantially the same basis to each member of a group of employees, defined under a reasonable classification set up by the employer. It must not discriminate in favor of owners, officers, or highly compensated employees.

**Graduate education.** This tax-free treatment also applies to a graduate student at an educational institution who performs teaching or research activities for that institution. The qualified tuition reduction must be for education furnished by that institution, and not represent payment for services. The term *an educational institution* is defined earlier under *What is a Scholarship or Fellowship?*

## Individuals Abroad

For the most part, U.S. scholars and teachers abroad are taxed on their worldwide income, but certain special rules apply.

## Teaching or Lecturing Abroad Under Taxable Grants

Generally, a grant you receive for teaching or lecturing abroad is payment for services and subject to U.S. income tax. This includes cash paid to you for transportation expenses and the value of transportation provided by the grantor.

Table 1. Tax Treatment of Scholarship and Fellowship Payments

Payment for	Degree candidate	Not a degree candidate
Tuition	Tax free*	Taxable
Fees	Tax free*	Taxable
Books	Tax free*	Taxable
Supplies	Tax free*	Taxable
Equipment	Tax free*	Taxable
Room	Taxable	Taxable
Board	Taxable	Taxable
Travel	Taxable	Taxable
Teaching	Taxable	Taxable
Research	Taxable	Taxable
Other services	Taxable	Taxable

\* If required of all students in the course

**Foreign earned income exclusion.** You may be able to exclude foreign earned income from your gross income. See Publication 54 for limits to the exclusion. The exclusion may apply if your tax home is in a foreign country and you are:

- A U.S. citizen and a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year,
- A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, or
- A U.S. citizen or a U.S. resident alien and are physically present in a foreign country or countries for at least 330 full days in 12 consecutive months.

In addition, you may qualify to exclude or deduct a foreign housing amount. See Publication 54 for information.

**Tax home.** Generally, your tax home is your regular or principal place of business. It includes the entire city or general area in which your business or work is located. If you are temporarily absent from your tax home in the United States on business, expenses for travel, meals, and lodging (away-from-home expenses) may be deductible, but you cannot exclude your foreign earned income. If your new work assignment is for an indefinite period, your new place of employment may be your tax home, and no expenses in the general area of your new work assignment are deductible.

Expected or actual employment at the new location for more than one year is considered indefinite regardless of other facts and circumstances. If you expect employment to last for less than one year, the classification of your new work assignment as temporary or indefinite depends on all the facts and circumstances.

For more information on the foreign earned income exclusion and the foreign housing exclusion and deduction, see Publication 54.

**Expenses in connection with the grant.** If your grant for lecturing or teaching abroad is wholly taxable, the related expenses you incur may be deductible if they qualify as ordinary and necessary business expenses. If you are a professor or teacher regularly employed by an educational institution in the United States and are temporarily absent from the school to teach or lecture abroad, you generally may deduct your travel expenses. This includes the cost of all ordinary and necessary traveling expenses while away from your tax home (including meals and lodging) for the duration of the stay. Your deduction for meals generally is limited to 50% of the cost.

These deductions apply only to your own expenses and not to any expenses for any

person who may accompany you. For a complete discussion of travel expenses, get Publication 463, *Travel, Entertainment, Gift, and Car Expenses*.

In addition, your grant may qualify for exemption from the tax of the foreign country under either its laws or a tax treaty. For tax treaty provisions, get Publication 901.

## Studying or Teaching Under Fulbright Grants

If you are a lecturer, teacher, research scholar, or student who receives a grant under the Mutual Educational and Cultural Exchange Act of 1961, known as the Fulbright-Hays Act, you will probably encounter tax situations different from those discussed earlier in this publication. The grant may be excludable as foreign earned income (discussed earlier). Also, the grant may be excluded from the tax of the foreign country under the terms of a tax treaty.

If you receive a supplemental grant under the U.S. Information and Educational Exchange Act of 1948 (Smith-Mundt Act) for study, research, or teaching abroad, the grant is treated like a Fulbright grant.

**Professors and teachers.** If you receive a Fulbright grant for lecturing or teaching, it is payment for services and is subject to U.S. income tax. This also includes cash paid to you for transportation expenses and the value of transportation provided in kind by the government.

If your Fulbright grant is paid by an agency of the U.S. Government, you may be able to exclude your grant from income under the provisions of the law concerning “bona fide residence” or “physical presence” in a foreign country, provided you are not a U.S. Government employee. See *Foreign earned income exclusion*, earlier. The grant may qualify for exemption from the foreign country’s tax under either its laws or a tax treaty. See *Payment of Foreign Taxes*, next.

## Payment of Foreign Taxes

The United States has income tax treaties with certain countries. Under these treaties, the citizens and residents of the United States are exempt from foreign income taxes on certain amounts received while they are temporarily in a treaty country. The kinds of income with which you are likely to be concerned and that may be exempt by treaties are:

- Certain pay for personal services performed by a U.S. citizen or resident temporarily present in a treaty country,
- Wages of U.S. professors, teachers, and researchers who teach or do research in a treaty country, and
- Certain remittances, grants, allowances, and awards received by U.S. students, apprentices, and trainees who are studying abroad in a treaty country.

For more information on these tax treaty provisions, get Publication 901. Although the discussions in Publication 901 are in terms of foreign nationals receiving income from U.S.

sources, treaty provisions are generally reciprocal, applying equally to U.S. citizens or residents deriving income from foreign sources.

## Payment of U.S. Income Tax

You must report all income on a U.S. federal income tax return in U.S. dollars. If part or all of your income is in foreign currency, you must report this income in U.S. dollars at the rates of exchange in effect when you received the income. You should use the rate that most nearly reflects the value of the foreign currency—the official rate, the open market rate, or any other appropriate rate. You must be able to justify the rate you use.

You must pay any income tax due with U.S. dollars. This rule may not apply to nonconvertible foreign currency from a Fulbright grant, as explained later.

**Credit for foreign taxes paid.** If income taxes are imposed on you by a foreign country, you may be entitled to take either a tax credit or a tax deduction on your U.S. income tax return. Usually, it is to your advantage to claim the credit, which you subtract directly from your U.S. tax liability. Get Publication 514, *Foreign Tax Credit for Individuals*.

**Estimated tax payments.** You may have to make estimated tax payments. See *Estimated Tax*, later.

When figuring your estimated tax liability, do not consider tax-free income.

## Nonconvertible Foreign Currency (Blocked Income)

There may be cases in which a scholarship or fellowship grant is made in a foreign currency that is not convertible into U.S. dollars or into other money or property that is convertible into U.S. dollars because of:

- Restrictions imposed by the foreign country,
- An agreement with the United States, or
- The terms and conditions of the U.S. Government grant.

This nonconvertible income is commonly called blocked or deferrable income

**How to report.** There are two ways to report nonconvertible income:

- 1) Report the income and pay your federal income tax with U.S. dollars that you have in the United States or in some other country, or
- 2) Defer reporting the income until it becomes unblocked.

**Defer reporting.** If you choose to defer reporting the income, you must file with your federal income tax return an information return on a separate Form 1040 labeled “Report of Deferrable Foreign Income, pursuant to Rev. Rul. 74-351.” You must declare on the information return that you will include the deferrable income in your gross income when it becomes unblocked. You also must state that you give

up any right to claim that any part of the deferred income was includable in income for any earlier year.

This election cannot be changed without the consent of the IRS. Use Form 3115, *Application for Change in Accounting Method*, to request a change. Any expenses related to the deferred income must also be deferred.

All amounts reported on the information return must be reported in the foreign currency involved. If you have blocked income from more than one foreign country, include a separate information return for each country.

Income becomes unblocked and reportable for tax purposes when it becomes convertible, or when it is converted, into dollars or into other money or property that is convertible into U.S. dollars. Also, if you use blocked income for your nondeductible personal expenses, or dispose of it by gift, bequest, or devise, you must treat it as unblocked and reportable.

### Payment of Tax by Fulbright Grantees

As explained earlier, all income must be reported in U.S. dollars. In most cases, the tax must also be paid in U.S. dollars. If, however, at least 70% of your entire Fulbright grant has been paid in nonconvertible foreign currency (blocked income), you can use the currency of the host country to pay the U.S. tax, but only the part that is on the blocked income.

**Paying U.S. tax in foreign currency.** To qualify for this method of payment, you must send a statement in which you say that:

- 1) You were a Fulbright grantee and were paid in nonconvertible foreign currency and
- 2) At least 70% of the grant was paid in nonconvertible foreign currency.

This statement must disclose the total grant you received during the year and the amount of it you received in nonconvertible foreign currency. The statement must be certified by the U.S. educational foundation or commission paying the grant or other person having control of grant payments to you.

You should prepare at least two copies of this statement. Attach one copy to your Form 1040 and keep the other copy for identification purposes when you make a tax deposit of nonconvertible foreign currency.

**Figuring actual tax.** When you prepare your income tax return, you may owe tax or the entire liability may have been satisfied with your estimated tax payments. If you owe tax, figure the part due to (and payable in) the nonconvertible foreign currency by using the formula in Table 2.

- 1) Substitute actual amounts for estimated amounts.
- 2) Subtract estimated tax payments from the part of your actual tax payable in nonconvertible foreign currency.

**Figuring estimated tax on nonconvertible foreign currency.** If you are liable for estimated tax (discussed later), figure the amount you can pay to IRS in nonconvertible foreign currency using the formula in Table 2.

If you must pay your host country income tax on your grant, subtract any estimated foreign tax credit that applies to your grant from the estimated tax on nonconvertible foreign income (blocked income). If you do have blocked income, see the regulations under Internal Revenue Code Section 6316 for more information and examples.

**Deposit of foreign currency with disbursing officer.** Once you have determined the amount of the actual tax or estimated tax that you can pay in nonconvertible foreign currency, deposit that amount with the disbursing officer of the Department of State in the foreign country in which the foundation or commission paying the grant is located.

**Estimated tax installments.** You may either deposit the full estimated tax amount before the first installment due date or make four equal payments before the installment due dates. See *When to pay estimated tax*, later. If any of these dates falls on a Saturday, Sunday, or legal holiday, the due date is the following business day.

**Deposit receipt.** Upon accepting the foreign currency, the disbursing officer will give you a receipt in duplicate. The original of this receipt (showing the amount of foreign currency deposited and its equivalent in U.S. dollars) should be attached to your Form 1040 tax return or payment voucher from 1040-ES. Keep the copy for your records. Mail the return or your payment voucher to the Internal Revenue Service Center, Philadelphia, PA 19255-0002, U.S.A. Allow enough time for the receipt to be received by the due date for your return or for the payment of estimated tax.

## Tax Returns

The requirements for filing your income tax return and the tax return form you use are generally the same whether you live abroad or in the United States.

### How To Complete

To determine whether your scholarship or fellowship grant is tax free, use the worksheet in Table 3.

If the total amount of your grant is tax free, do not report it on your income tax return. If all

or part of your grant is taxable, report the taxable amount as explained below. (Part of your grant may be taxable even if you did not receive a Form W-2.) If you receive an incorrect W-2, ask the payor for a corrected one.

**Form 1040EZ.** Include on line 1 the taxable amount not reported on Form W-2. Print "SCH" and the amount not reported to the right of the words "W-2 form(s)" on line 1.

**Form 1040 or 1040A.** Include the taxable amount not reported on Form W-2 on line 7. Print "SCH" and the amount not reported on the dotted line next to line 7 on Form 1040 or in the space to the left of line 7 on Form 1040A.

**Schedule SE (Form 1040).** Amounts you receive under a grant that represent pay for your services are included in determining net earnings from self-employment. Net earnings of \$400 or more must be reported on Schedule SE. For example, you receive payments under a grant to conduct a specific research project benefiting the grantor. You are to work free from the direction or control of others. The payments are made primarily for your services rather than to further your education or training. You perform these services as an independent contractor and your compensation is included in determining net earnings from self-employment.

### When To File

The due date for filing your return is April 15. If April 15 falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.

**Extensions of time to file.** There are several exceptions to the filing deadline.

**Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.** You can get an automatic 4-month extension of time to file your tax return by filing Form 4868. This 4-month extension is not in addition to the automatic extension until June 15, discussed later. You must file Form 4868 by the due date for filing your return, including the automatic extension until June 15, if applicable. In filling out Form 4868, you must make an accurate estimate of your tax for the year. If you find you cannot pay the full amount due with Form 4868, you can still get the extension, but you will be charged interest from the original due date to the date the tax is paid. For additional information, get the separate instructions for Form 4868.

**Table 2. Formula To Determine Estimated Tax That May Be Paid in a Nonconvertible Foreign Currency**

$\frac{\text{Adjusted gross income that is nonconvertible income}^*}{\text{Total adjusted gross income}^*} \times \text{Total estimated U.S. tax} = \text{Estimated tax on nonconvertible income}$
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\* Estimated amounts

**Table 3. Scholarship and Fellowship Income Worksheet**

1. Enter your scholarship or fellowship income.	_____
2. If you are <b>not</b> a degree candidate, <b>stop here</b> . The entire amount on line 1 is taxable. If any part of the amount on line 1 is <b>not</b> reported on a W-2, include that part on line 1 of Form 1040EZ or on line 7 of Form 1040 or 1040A. Enter "SCH" and the taxable amount not reported on a W-2 Form on the line next to line 1 of Form 1040EZ or line 7 of Form 1040 or 1040A. If you are a degree candidate, go to line 3.	
3. Enter the amount from line 1 that was for teaching, research, or any other services.	_____
4. Subtract line 3 from line 1.	_____
5. Enter the amount from line 1 (except any amount entered on line 3) used for tuition and course-related fees, books, supplies, and equipment required for study at an educational institution.	_____
6. Subtract line 5 from line 4.	_____
7. <b>Taxable part.</b> Add line 3 and line 6. If any part of this amount is <b>not</b> reported on Form W-2, include that part on line 1 of Form 1040EZ or on line 7 of Form 1040 or 1040A. Enter "SCH" and the taxable amount not reported on a W-2 Form on the line next to line 1 of Form 1040EZ or line 7 of Form 1040 or 1040A.	_____

Enter any payment you made with the application for extension form on Form 1040, Form 1040A, or 1040EZ. You cannot choose to have the IRS figure your tax if you use the extension of time to file.

**Form 2688, Application for Additional Extension of Time To File U.S. Individual Income Tax Return.** Further extensions of the time to file, or any extension of the time to pay any tax due, are granted only under very unusual circumstances. If you need additional time to file, apply for the extension either in a letter or by filing Form 2688. Extensions beyond the 4-month automatic extension are not granted automatically. You must show reasonable cause.

Except in undue hardship cases, IRS will not accept an application for extension on Form 2688 unless you have taken advantage of the automatic 4-month extension using Form 4868.

Federal tax returns mailed by taxpayers are filed on time if they bear an official postmark dated by midnight of the due date or extended due date.

**Automatic extension until June 15.** If you are a U.S. citizen or resident, you may qualify for an automatic extension of time until June 15 to file your return and pay any tax due if you meet one of the following conditions.

- Both your tax home and your abode are outside the United States and Puerto Rico.
- You are in military service on duty outside the United States and Puerto Rico on the due date of the return.

You must attach a statement to your return showing that you meet a condition. You must pay interest on any unpaid tax from the regular due date up to the date you pay the tax.

If you and your spouse file a joint return, only one of you needs to meet a condition on

April 15 to take advantage of the automatic extension to June 15.

If you do not file a joint return and choose, instead, to file separate returns, only the spouse who met a condition on April 15 qualifies for the automatic extension.

**Form 2350, Application for Extension of Time To File U.S. Income Tax Return.** Use Form 2350 to ask for an extension to file your tax return. You can file Form 2350 if you need the time to meet either the bona fide residence test or the physical presence test necessary to qualify for the foreign earned income exclusion and the foreign housing exclusion or deduction. You may apply for the extension by sending Form 2350, in duplicate, to the Internal Revenue Service Center, Philadelphia, PA 19255-0002. You can also mail or deliver Form 2350 directly to your local IRS representative or other IRS employee. You must file Form 2350 on or before the due date for filing your return. The due date is April 15 (June 15 if both your tax home and abode are outside the United States and Puerto Rico on April 15). You will receive an extension until after you qualify for these exclusions.

Form 2350 does not extend the time to pay taxes. If you expect to owe tax, you should make payment with the Form 2350.

For further information on the foreign earned income exclusion and the foreign housing exclusion or deduction, get Publication 54.

### Where To File

If you are living in the United States, send your return to the appropriate Internal Revenue Service Center address listed in the instructions to your federal tax return.

**Individuals living abroad.** If you are studying or teaching abroad under a grant, send your return and estimated tax payments to the Internal Revenue Service Center, Philadelphia, PA 19255 U.S.A.

**Fulbright grantees.** If you pay your U.S. income tax with nonconvertible foreign currency, you must attach all of the following to the return:

- 1) A copy of the certified statement discussed earlier (see *Payment of Tax by Fulbright Grantees*),
- 2) A detailed statement showing the allocation of tax attributable to amounts received in foreign currency and the rates of exchange used in determining your tax liability in U.S. dollars, and
- 3) The original deposit receipt for any balance of tax due on the return that you paid in nonconvertible foreign currency.

For more information about filing requirements while abroad, get Publication 54.

If you are overseas, you can get the forms and publications discussed earlier, as well as assistance in preparing the forms, at IRS offices in: Bonn, Germany; London, England; Mexico City, Mexico; Nassau, Bahamas; Ottawa, Canada; Paris, France; Rome, Italy; Santiago, Chile; Singapore; Sydney, Australia; and Tokyo, Japan. The offices generally are located in the U.S. Embassy or consulate in these cities.

For more information on filing requirements, see the instructions for Form 1040, 1040A, or 1040EZ.

## Estimated Tax

The grantor of a scholarship or fellowship does not withhold tax unless the grant represents payment for employee services. Grants representing payment for employee services are wages for withholding purposes. The grantor must report them on a Form W-2.

You may have to pay estimated tax if the grantor of a scholarship or fellowship does not withhold tax or withholds insufficient tax on the taxable part of your scholarship or fellowship grant.

Your estimated tax is the total of your expected tax for the year minus your expected withholding and credits.

**Who should make estimated tax payments?** Generally, you must make estimated tax payments if you expect to owe at least \$500 in tax after subtracting your withholding and credits, and you expect your withholding and credits to be less than the smaller of:

- 1) 90% of the total tax for the year, or
- 2) 100% of the total tax shown on your preceding year's tax return. The return must cover all 12 months.

Item (2) will not apply if your adjusted gross income for the preceding year was more than \$150,000 (\$75,000 if you were married filing separately). See *Chapter 2* in Publication 505, *Tax Withholding and Estimated Tax*.

**When to pay estimated tax.** For estimated tax purposes, the year is divided into four payment periods. The payment due dates are

April 15, June 15, September 15, and January 15. If you have income subject to estimated tax during the first payment period, you must make your first payment by the due date for the first payment period. You can pay all your estimated tax at that time, or you can pay it in four installments. If any of the due dates fall on a Saturday, Sunday, or legal holiday, the due date is the following business day.

**Penalty.** If you do not pay enough of your estimated tax in each payment period, you may have to pay a penalty. You will not have to pay a penalty if you had no tax liability last year and you were a U.S. citizen or resident for the whole year. For this rule to apply, your prior tax year must have been a tax year of 12 months.

For more information, see *Chapter 4* of Publication 505.

You can get help from the IRS in several ways.

**Free publications and forms.** To order free publications and forms, call 1-800-TAX-Form (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you can also get many forms and

publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details. If space permitted, this information is at the end of this publication.

**Tax questions.** You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

**TTY/TDD equipment.** If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

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## How To Get More Information



