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GENERAL RULES OF U.S. INCOME TAXATION

- Everyone and all income is subject to taxation.
- For citizens and residents, income in the U.S. is taxed on worldwide income.

TAXATION OF FELLOWSHIP AND INTERNSHIP INCOME

- APHL requested a “determination of status” from the IRS regarding the correct reporting of fellowship/internship grants to fellows and interns (in effect since 1997).
- Fellowship/internship grants (all payments) issued by APHL have been determined to possibly be reportable Gross Income but are not salaries or wages for payroll reporting purposes.
- Fellowship/internship grants are not subject to Social Security Tax (FICA) or Federal Unemployment Tax (FUTA) since the award is intended to further the education and training of the recipient, rather than provide compensation or payment for services rendered.
- In lieu of receiving a Form W-2 or Form 1099, each January fellows and interns will receive a letter from APHL listing the total of all payments made to them during the calendar year (January 1 to December 31).
- If applicable, the income reported should be listed on Line 1a [Wages] of Form 1040 along with the annotation “SCH” and the amount on the dotted line.

FILING STATUS

- The available filing statuses are Single, Married Filing Joint, Married Filing Separately and Head of Household.
- Your filing status determines the tax brackets used to calculate your tax liability.
- Your filing status is determined on the last day of the

calendar year (important for marriage or divorce).

- If your parents still claim you as a dependent, you will need to indicate on the return. This reduces your available standard deduction. If they do not provide over half your support, or you are over age 23, you are not a dependent.

ESTIMATED TAXES

- Taxes will not be withheld by APHL on fellowship/internship payments.
- The U.S. taxation system is a pay-as-you-go system, therefore estimated tax payments may be required on a quarterly basis as income is earned. (April 15, June 15, September 15 and January 15)
- Tax penalties may be incurred if estimated taxes are not made in a timely manner.
- Estimated tax payments are made using Form 1040-ES vouchers.
- If you will owe less than \$1,000 in total for the year, after withholding, no estimates are required.

STATE INCOME TAXES

- Each state has its own income tax system and will tax the fellowship income based on federal income.
- A “Resident” state income tax return is filed in the state of residency to report all federal income, even if the income is earned in another state.
- A “Part-Year Resident” return is filed if income is earned in more than one state and physical residency changes during year. Returns will be filed in all states of residency during the year, and income will be allocated to each state as applicable.
- A “Non-Resident” return is filed if an individual maintains physical residence in one state but earns income from a different state and is not a resident of that other state during the year. Only the income earned in the non-resident state is taxable on the non-resident return.
- Taxes paid to other non-resident states are generally creditable against tax in the resident state, since the non-resident state income is also taxed in the resident state.
- States may also require estimated tax payments, with the threshold for paying varying by state.



CALCULATION OF TAX

Calculation	Definitions and examples
Gross Income	Wages, interest & dividends, capital gains, unemployment, Social Security income, self-employment income, fellowship/internship grants, etc.
Less: Adjustments	Student loan interest, IRA deductions, etc.
Adjusted Gross Income (AGI)	Total gross income
Less: Standard or Itemized Deduction	Itemized deductions include state taxes (capped at \$10,000), mortgage interest and charitable donations. If the standard deduction exceeds the itemized deductions, use the standard deduction.
Taxable Income	Total income on which tax bracket is based
Multiply: Tax rate	Tax rates found in Form 1040 instructions; graduated rates ranging from 10% to 37% depending on tax bracket and filing status
Tax	Total tax liability
Less: Credits	Child, childcare, education*, foreign taxes, etc. Credits reduce tax dollar for dollar, unlike deductions and adjustments that reduce taxable income.
Less: Withholding/Estimated Tax Paid	Amount withheld from wages or estimated tax payments made
Amount Due or Overpaid (Refund)	

LIFETIME LEARNING EDUCATION CREDIT *

- Available for any qualified expenses (tuition, activity fees and expenses for course-related books, supplies and equipment) required for higher education.
- May reduce your tax liability by up to \$2,000 (20% of first \$10,000 of expense).
- Available for all years of postsecondary education and for courses to acquire or improve job skills.
- Available for an unlimited number of years.
- Student does not need to be pursuing a degree.
- Income limits based on AGI – phaseout between \$80,000 and \$90,000 single, \$160,000 and \$180,000 married filing joint).

RESOURCES

- IRS Forms and Instructions:
<https://www.irs.gov/forms-instructions>
- IRS Form 1040 Instructions:
<https://www.irs.gov/pub//irs-pdf//i1040gi.pdf>
- IRS Publications:
<https://www.irs.gov/forms-pubs>
- State Department of Revenue websites

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