



Honoraria and Service Payments
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Learning Objectives

After completing this information session, you should be able to:

- Understand the differences between a prize / award, fellowship / grant / stipend, honoraria, service payment and Harvard's tax reporting and withholding requirements.
- Know how to leverage various resources

Note: The Financial Policy Office is currently creating guidance around defining and processing Honoraria and Other Service Payments and the information supplied in this deck may change.

Determining Payment Type

Basic Tax Concepts

- Every time a person receives a payment from Harvard – even an expense reimbursement - that payment may be considered taxable and reportable **unless** an exclusion applies. **An individual or department’s preference is not relevant to the classification determination.**
- If an exclusion applies it is considered a nontaxable payment. Common examples include:
 - Payments or reimbursements that are for valid Harvard business expenses and meet accountable plan rules (valid business purpose, substantiation, timely processing).
 - Payments for required tuition and fees for a degree program (often called scholarships).
 - Foreign sourced income for foreign nationals.
 - Income exempt under tax treaty claims or other IRS revenue codes.
- If an exclusion **does not** apply it is considered a **nonqualified** (taxable or reportable payment). Nonqualified payments include fellowships, prizes, travel grants, research grants, service payments, honoraria, and some taxable reimbursements such as expenses for personal/educational development, expenses >90 days, moving expenses, health insurance.
- Depending on the situation, taxes may be withheld up front from gross income payments (as with salaries and wages or fellowships for nonresident aliens) or may not be withheld (as with fellowships to U.S. residents). Gross income is the amount earned before anything is taken out for taxes or other deductions. Fellowship payments may constitute “gross income” to the recipient and need to be included on the recipient’s tax return.
- The object code does not solely determine tax and reporting requirements. Tax determination are also based on payment description, transaction type, location of activity, etc.

Incurring Expenses and Processing Payments

Who are you paying?

Are you paying an entity/business or an individual?

- Is it a U.S. or foreign entity?
- Is individual a U.S. Citizen/Permanent Resident or a Foreign National/Nonresident Alien
- What is their tax residency and visa status? Is the individual entering the U.S.?

What type of payment are you making?

Is the payment a business expense reimbursement, compensation for services, honoraria payment, fellowship/grant/allowance, payment for goods, prize/award, scholarship, or other?

- The type of payment will help determine what policies need to be followed and if the payment is reportable or taxable. Both individuals and entities may be subject to taxes.
- If payment to an individual, are they classified correctly and are they allowed to receive payment based on their visa status?

What is the location of the activity relating to the payment?

Where is the payment being used pr activity occurring (inside U.S. or outside U.S.)?

- Are the goods or services being performed in the U.S.?
- Location of the activity drives the foreign source determination
- Does the individual have a PeopleSoft appointment? The appointment type may help in classifying the type of payment (service vs fellowship).

Definition Fellowship/Grant/Allowance/Stipend

Fellowship/Grant

- May also be called a stipend, scholarship, award, allowance, travel grant, research grant, etc.
- Payment or other value (plane ticket or other expenses) to support an individual in pursuit of their professional development, personal learning or scholarship.
- Harvard should not make these payments directly but issue the payment to the awardee in order to comply with tax reporting and withholding requirements. For example, Harvard should not purchase a plane ticket for a student doing summer research abroad but award the travel grant to them through the B2P payment request process.
- A fellowship may take the form of a living, travel, or research award or allowance. This is not related to performance of services on behalf of Harvard.
- Examples:
 - A travel fellowship/grant for individual research
 - An award to a student to do summer research abroad
 - Stipend for a summer internship (personal, educational development)
 - Taxable travel reimbursement for a student presenting their dissertation

Definition of Prize / Award

Prize/Award

An amount awarded in recognition of a **past** accomplishment or achievement.

Prizes are often given during commencement such as:

- Earning the highest GPA
- Winning a business plan competition
- Writing prize (best thesis)
- Award to undergraduate student for outstanding scholarly work or research

Fellowship vs. Prizes Reporting and Tax Withholding Requirements

Fellowship/ Grants		Prize/ Awards	
Support payments (i.e. plane tickets, health insurance, or other travel expenses) paid to or on behalf of an individual to aid in their own personal research or scholarship.		Payments issued in recognition of a past accomplishments or achievements, such as those awarded for earning the highest GPA or winning a business plan competition.	
US Tax Residents	Nonresident Aliens	US Tax Residents	Nonresident Aliens
<ul style="list-style-type: none"> • Harvard is not required to report these payments to the IRS or to the recipient • No withholding is required at time of payment, but tax payments due at filing could be required • Recipient must self-report as gross income for any non-qualified fellowship received 	<ul style="list-style-type: none"> • Harvard is required to report payments to the IRS. The recipient will receive a Form 1042-S indicating “fellowship/ scholarship” for non-qualified payments • Withholding is required (at 14% or 30% depending on visa type) but can be reduced by tax treaties if determined eligible beforehand 	<ul style="list-style-type: none"> • Harvard must report to the IRS and issue prize recipients a Form 1099 if the recipient receives \$600 or more in prize money during a calendar year • 1099 MISC Box 3 	<ul style="list-style-type: none"> • Harvard is required to report these payments to the IRS and to the recipient on Form 1042-S as “other income” • 30% Withholding is required. Not eligible for tax treaty exemption

Independent Contractor Classification (IC)

- Under MA law, the *presumption is that an individual is an **employee*** unless the individual meets the three-part IC test, which is based on the completion of the [Independent Contractor Questionnaire \(ICQ\)](#) and review and classification by your local Human Resources Office.
- An ICQ must be completed regardless of where the work is being completed (including those performing work inside and outside of Massachusetts) and prior to engaging the individual to start work.
- For work outside of the U.S., *Harvard must follow the rules and regulations based on the country in which the work is taking place*. The local school or unit's HR office can work with Global Support Services (GSS) to determine international IC status.
- A worker's or department's preference is not relevant to the classification; classification is based on state and federal criteria and regulations.
- Misclassifying a worker as an IC instead of an employee can result in a significant liability. The local department or unit is responsible for any liability resulting from a misclassification decision, including fines, penalties, and attorney's fees.
- The IC review and approval process must be completed PRIOR to a contract being signed or the work being performed.
- The Policy applies if you require services that will be completed by an individual OR a single-employee LLC, Company or Partnership **OR** a third-party marketplace not considered a managed service provider (i.e., marketplace does not go through a formal classification process, but acts as a freelancer marketplace such as freelancer.com).

Individual schools and units may have more restrictive policies or internal processes; contact your tub human resources or finance department for more information.



IC Questionnaire Exceptions Process

Under limited circumstances, the formal completion of an IC Questionnaire is not required

- The local department or unit must still confirm that the classification satisfies the three-part legal test
 - A written contract / agreement is still required
 - The local department or unit must provide the accounts payable approver with a written exception attestation form or statement of why a completed IC Questionnaire is not required
- 1) Guest Speaker or Guest Lecturer receiving an honorarium or speaking fee for a one-time speaking engagement (performers/musicians also fall into this category). This exception cannot be used for individuals teaching or co-teaching a substantial portion of a course, those listed as instructors in the course catalog, or those who hold a Harvard appointment for their teaching role.
 - 2) Single, Short-Term Engagements for Less than \$3,000 - An ICQ is not required if the engagement satisfies the three-part Independent Contractor test; the engagement will last no longer than three months (90 calendar days); AND total payments to the IC will not exceed \$3,000.

Individual schools and units may have more restrictive policies or internal processes; contact your tub human resources or finance department for more information.

Guidance on Classifications

MYTH: Individuals can be paid as employees, independent contractors or vendors/suppliers.

FACT: There are only two options for paying individuals – as employees **or** as vendors/suppliers. An “independent contractor” is the **same thing** as a “vendor” or “supplier.”

Employee

Paid via PeopleSoft or an approved out-of-state or out-of-country payroll

- Individual
- Generally being paid compensation or salary and wages in exchange for past, present or future services that are primarily for Harvard’s benefit.
- Requires a Form I-9
- Receives a W-2
- May have income taxes withheld

Vendor

(May also be called a Supplier or Contractor and may be paid for the purchase of goods and/or services.)

Paid via Accounts Payable (B2P)

- Can be operating as a single individual, or a multiple employee business
- Can be unincorporated, an individual person, a company, LLC, business, partnership, nonprofit, government agency, trust/estate, etc.
- Individuals or single-person companies (regardless of company type) must comply with the [Independent Contractor Policy](#)
- Foreign vendors (individual or entity) may have taxes withheld depending upon the payment type and tax status
- May receive a 1042S or 1099 based on vendor and payment type and tax status

Summary of Performer Object Codes



Lecture / Performance Held Outside of Massachusetts Use Object Code 8691

(Lect Perf OUTSIDE MA - honoraria/svc
pmt/fees to vistng lect/perf)

- Individual or entity was not located in Massachusetts when they performed the service
- Not subject to the Massachusetts Performer tax (though they may be liable for other taxes based on their location and immigration status)
- Payments may be classified as honorarium or service payments



Lecture / Performance Held Inside Massachusetts Use Object Code 8690

(Lect Perf IN MA WH Ex-honoraria/svc
pmt/fees to vis lec/perf/ent(pmt holds))

No Exemption Attestation

- Individual or entity was in Massachusetts when they performed the service
- Payments may be classified as honorarium or service payments
- Individual or entity did NOT submit a Form PWH-WW or PWH-RW to Mass Department of Revenue
- Will be assessed a performer tax when they earn >\$5,000 cumulatively in a calendar year. Note: The tax will be withheld on the total payment that reaches the \$5,000 threshold and any payments after that



Lecture / Performance Held Inside Massachusetts Use Object Code 8692 (Lect Perf IN MA WH Ex-honoraria/svc pmt/fees to vis lec/perf/ent(pmt holds))

Includes Exemption Attestation

- Individual or entity was in Massachusetts when they performed the service
- Payments may be classified as honorarium or service payments
- Individual or entity has completed the Attestation Form for Claiming Exemption or Reduction in Withholding acknowledging they submitted a Form PWH-WW or PWH-RW to Mass Department of Revenue at least 10 days before the event
- Central Accounts Payable will review the documentation and adjust tax liability as appropriate.



Individual - Non- Performance Related Honoraria Use Object Code 8694

(Honoraria-Individual "non
performance" related)

- Non-performance payment that is classified as an honorarium.
- Payment is to an individual (not entity) and is one-time payment for which no fee is required or set. For example, a juror on an award selection committee.
- Non-performance related payments to an entity would most likely be in the 79XX object code series.

Non-Performance Honorarium

An honorarium (aka honoraria) is a nominal payment to an individual as a “thank you” and as a gesture of good will and appreciation.

- An honorarium is not based on an agreed amount between the individual and Harvard. If a payment is negotiated or agreed upon, this constitutes a contractual agreement and is considered a service payment.
- An honorarium is a token payment for participation in an activity or event which no fee is legally required.
- An honorarium is usually a one-time payment made to an individual (not a corporation, business or partnership).
- The honorarium payment and the amount are both discretionary. The amount of an honorarium should not be geared to lost fees or wages, expenses, or other opportunity costs incurred by the individual, but rather to the amount of recognition appropriate for the service provided.

If any of the answers below are “Yes” this is not an honorarium and do not use object code 8694 but instead a service payment object code; likely in the 79xx series.

- Is the payment to a business, corporation, or partnership?
- Did the individual set the price?
- Was the payment amount negotiated between Harvard and the individual?
- Are the individual’s services recurring?

Non-Performance Honorarium (continued #2)

Some examples of nonperformance honorarium where object code 8694 would be used :

- Harvard offers \$250 to a participant on a prize review committee
- Harvard offers \$500 to a member of a School reaccreditation committee

If a member of a reaccreditation committee requests that they be paid or be paid a different amount, that is not considered an honorarium, but a service payment. In that case, an object code in the 79XX series would most likely be used.

Example of payments using object code 8690-8692:

- Harvard offers \$500 to a guest speaker after an event, workshop, or other similar function*
 - This would be classified as an honorarium and appropriate performer object code would be used.
- If a musician sets the amount to be paid, that is not an honorarium but a service payment. The performer object codes (8690-8692) would still be used.

*These individuals cannot be teaching or co-teaching a substantial portion of a course, listed as instructors in the course catalog, or who hold a Harvard appointment for their teaching role.

Employee Fellow vs Nonemployee Fellow Payments

Employee fellowship payments are made in exchange for **services that are primarily for Harvard’s benefit**. These payments represent compensation (i.e., salary or wages).

Nonemployee fellowship payments as payments made to support an individual in the pursuit of their **professional development, scholarship or research**. Nonemployee fellowship payments are **not** payments in exchange for services, but rather are payments to allow someone to carry out their own research or educational activities under supervision or mentorship of a faculty member. Nonemployee fellowship payments often fund living, travel, or research expenses. See [Classification of Employee Fellow vs Nonemployee Fellow](#)

Factors suggesting an employee fellow payment	Factors suggesting a nonemployee fellow payment
<ul style="list-style-type: none"> • Pay is based on percentage of effort. • Payment is tied to completion of one or more deliverables. • Harvard can immediately stop payments if the fellow interrupts the work. • The relationship between faculty member and fellow is more supervisor/worker than mentor/mentee. • The faculty member closely supervises the work. • The fellow is doing work previously done by an employee or is acting as a replacement or substitute for an employee fellow, such as a research assistant/associate. The faculty member or sponsor identified the research topic. 	<ul style="list-style-type: none"> • Payment is typically based on a flat amount. • Payment is for housing or other living expenses such as food, accommodation or health insurance. • Harvard cannot immediately stop payments if the fellow interrupts the work. • The relationship between faculty member and fellow is more mentor/mentee than supervisor/worker. • The faculty member has nominal supervision over the work. • The fellow identified the research topic (perhaps with advice from the faculty member). • The fellow applied for and obtained the funds from an outside sponsor (even if the sponsor required the funds to flow through Harvard).

In Lieu of Payments or Equivalent Transfers

In Lieu of Payments (aka In Lieu of Honoraria)

In some instances, an individual (employee or nonemployee) may request to waive a payment from Harvard or from external parties and instead request (not direct) that it be donated to a nonprofit or credited to a particular Harvard fund, such as a research account.

- These payments are often called *in lieu of payments*.
- In general, this practice is strongly discouraged because there may often be a tacit quid pro quo arrangement between service provider and Harvard.
- Even if a recipient declines the income, these payments must still be treated as taxable income to the individual unless certain IRS criteria are met.

Harvard is currently working on guidance regarding these types of payments. For additional questions reach out to your Finance Office and/or financialpolicy@harvard.edu.

Reference Materials

[Classification Employee Fellow vs Nonemployee Fellow](#)

[Fellowship Payments and Reimbursements for Students and Non-employee Postdocs/Fellows](#)

[Fellowships Toolkit](#)

[Independent Contractor Policy](#)

[Performer Tax Information](#)

[University-Issued Card Policy](#)

Most Common Types of Payments to NON-EMPLOYEES

Type of payment	PAYMENT INFORMATION					US TAX RESIDENTS			NON-RESIDENT ALIENS		
	Payment definition	System/payment mechanism	Payee (relationship to the university)	Processed by?	Common object codes used	Taxable to U.S. tax residents?	If taxable, tax reporting document issued	If taxable, is withholding required? If so, at what rate?	Taxable to aliens?	If taxable, tax reporting document issued	If taxable, is withholding required? If so, at what rate?
QUALIFIED SCHOLARSHIP (also called "grant", "award", "stipend", "scholarship") often applied directly to student bill	Required tuition and fees associated with a degree program	SFS via SIS feed, payment applied directly to bill	Students (Must be registered in a degree program)	SRO	6410, 6430	NO per IRS Pub 970	N/A	N/A	NO per IRS Pub 519	N/A	N/A
NON-QUALIFIED SCHOLARSHIP/FELLOWSHIP (also called "grant", "award", "stipend" and can be paid either via Payroll or AP)	Payment for expenses other than required tuition and fees (e.g., living expenses, travel)	Payroll/ Add Pay SFS via SIS feed to Payroll or AP (HCOM)	Student (MST), Monthly Teaching Fellow (MTF), External Post Doctoral Fellow (MEP)	Payroll Processors/ SRO or AP	6120, 6140, 6440, 6450-6455, or 6460	YES per IRS Pub 970	None - individuals need to self-report (1)	NO	YES per IRS Pub 519	1042-S, income code 15	YES, 14% for an F, J, M or Q visa holder, 30% for B-1 visa holders, lower if a tax treaty is on file (2)
PRIZES	A payment for a task well done (e.g., writing the best thesis, etc.)	AP (HCOM)	Non-Employees	AP	6462	YES per IRS Pub 970	1099 MISC, Box 3 other income	NO	YES per IRS Pub 515	1042-S, income code 16	YES, 30% (no tax treaty applies)
HONORARIA	A cash gift for services rendered where no set value is assigned.	AP (HCOM)	Non-Employees	AP	8690 or 8692	YES per IRS 1099 Instructions	1099 MISC, Box 7 non-employee income	YES IF: CY amounts >= \$5K, 5.25% MA Performers Tax (3)	YES per IRS Pub 515	1042-S, income code 16	YES, 30% FED (no tax treaty applies) plus 5.25% MA Performers Tax if CY payments >= \$5K (3)
ROYALTIES	Payment for use of intellectual property (writing, inventions, etc.)	AP (HCOM)	Non-Employees	AP	8570	YES per IRS Pub 15-A	1099 Misc, Box 2 royalty income	NO	YES	1042-S, income code 12	YES, 30% (lower if tax treaty applies)
REFUNDS	Repayment from the University (i.e. for cancellation of a program or an overpayment to UHS)	AP (HCOM)	Employee	AP	Varied	NO	N/A	N/A	NO	N/A	N/A
SERVICE PAYMENTS (includes expenses)	Payment for services rendered as a non-employee	AP (HCOM)	Non-Employees (independent contractors or non-employee fellows)	AP	Varied depending on activity	YES per IRS Pub 15-A	1099 MISC, Box 7 non-employee income	YES IF: CY speaking/performance fees >= \$5K, 5.25% MA Performers Tax (3)	YES per IRS Pub 515	1042-S, income code 16	YES, 30% FED (no tax treaty applies) plus 5.25% MA Performers Tax if CY payments >= \$5K (3)
NONTAXABLE REIMBURSEMENTS (Business Expenses Associated with an Invited Guest/Required Course for Degree Student/Reimbursement of Employee/Student Recruitment Expenses/Other non-employee expenses)(2)	Payment to a non-employee who has paid for bona fide University business expenses out of pocket	Oracle Non-employee Reimbursement (NR)	No current relationship to the university (includes prospective employees and students)	AP	Varied depending on activity	NO per IRS Pub 463	N/A	N/A	NO per IRS Pub 515	N/A	N/A

1. While nonqualified scholarships and fellowships are gross income to recipients who are U.S. tax residents, the IRS does not require Harvard to report on these payments. This means that Harvard sends no documentation on these payments to either the IRS or to the recipient. Recipients are advised to retain their award letters or pay stubs to substantiate the amount of money received for tax purposes.

2. Tax treaties that can reduce withholding burden may apply for residents of certain countries. For more information, see contact list at:

[Nonresident Alien Tax](#)

3. If Harvard pays a performer over \$5,000 during a calendar year, 5.25% Massachusetts Performers Tax must be withheld from the payment. See more information at:

[the Office of the Controller website.](#)

Appendix A:
Most Common Types of Payments to EMPLOYEES

Version date: 1/1/2015

PAYMENT INFORMATION				U.S. TAX RESIDENTS			NON-RESIDENT ALIENS		
Type of payment	Payment definition	System/payment mechanism	Payment/reimbursement processed by?	Taxable to U.S. tax residents?	Tax reporting document issued to U.S. tax resident	Is withholding required? If so, at what rate?	Taxable to aliens?	If taxable, tax reporting document issued	If taxable, is withholding required? If so, at what rate?
REGULAR SALARIES AND WAGES	Compensation for services rendered as an employee	Payroll	Payroll Processors	YES per IRS Pub 15-A	W-2	YES, based on W-4	YES	W-2 or 1042-S if tax treaty on file (1)	YES based on W-4, unless tax treaty on file (1)
BONUS OR OTHER SUPPLEMENTAL PAY (2)	Special payments other than regular wages and salaries	Payroll	Payroll Processors	YES per IRS Pub 463	W-2	YES, at supplemental rate	YES per IRS Pub 515	W-2 or 1042-S if tax treaty on file (1)	YES at supplemental rate, unless tax treaty on file (3)
EMPLOYEE REIMBURSEMENT	Payment to an employee who has paid for bona fide University business expenses out of pocket	Oracle/ Reimbursements, Web Voucher Reimbursement	RCS/AP Processors	NO per IRS Pub 463	N/A	N/A	NO per Accountable Plan Rule	N/A	N/A
QUALIFIED MOVING AND RELOCATION EXPENSES (4)	Payments made to an incoming employee to support his/her relocation	Payroll	Payroll Processors	NO per IRS Pub 521	N/A	N/A	NO per IRS Pub 521	N/A	N/A
NON-QUALIFIED MOVING AND RELOCATION EXPENSES (4)	Payments made to an incoming employee to support his/her relocation	Payroll	Payroll Processors	YES per IRS Pub 463	W-2	YES, at supplemental rate	YES per IRS Pub 515	1042-S	YES at supplemental rate, unless tax treaty on file (3)
GIFT	Tangible personal property awarded out of gratitude	Payroll Add Pay	Payroll Processors	YES if > \$75 (for longer service employees, if > \$400) per HU Gift Policy (5)	W-2 as additional compensation	YES, at supplemental rate	YES if > \$75 (for longer service employees, if > \$400) per HU Gift Policy (5)	W-2 as additional compensation, 1042-S if tax treaty is on file (3)	YES at supplemental rate, unless tax treaty on file (3)
HONORARIA (Service Performed Is Related to Employment)	A cash gift for services rendered where net set value is assigned	Payroll Add Pay	Payroll Processors	YES per IRS Pub 15-A	W-2 as additional compensation	YES, at supplemental rate	YES per IRS Pub 515	W-2 as additional compensation, 1042-S Form if tax treaty is on file (3)	YES at supplemental rate, unless tax treaty on file (3)
REFUND	Repayment from the University (i.e. for cancellation of a program or an overpayment to UHS)	AP (HCOM)	AP	NO	N/A	N/A	NO	N/A	N/A
ROYALTY INCOME	Payment for use of intellectual property	AP (HCOM)	AP	YES per IRS Pub 15-A	1099 MISC box 2 royalty income	NO	YES per IRS Pub 515	1042-S, income code 12	YES, at 30% unless tax treaty is on file
HOUSING ALLOWANCES/ MORTGAGE SUBSIDIES	Cash payment to employee to subsidize housing/mortgage costs	Payroll Add Pay	Payroll Processors	YES per IRS Pub 15-A	W-2 as additional compensation	YES, at supplemental rate	YES per IRS Pub 515	W-2 as additional compensation, 1042-S if tax treaty is on file (3)	YES at supplemental rate, unless tax treaty on file (3)

(1) If a non-resident alien has a tax treaty on file with the Nonresident Alien Tax group, the withholding rate is 0% and the employee will receive a Form 1042-S. If no tax treaty is on file, the withholding is based on the employee's Form W-4 elections and the employee will receive a W-2. Call NRA Tax Customer Service at 5-8500, Option 5, for more information.

(2) Typically, employees should not receive 1099 payments, except in the rare circumstance where the employee provides services that are significantly unrelated to his or her regular Harvard job.

(3) Same as Note 1 above, except that if no tax treaty is in place, the withholding on these payment types is at the supplemental rate.

(4) See [guidelines for qualified vs. nonqualified moving expenses](#)

(5) See [HU Gifts and Celebratory Events Policy](#)