

**TO:** DISTRIBUTION  
**FROM:** MARYANN Q PICCOLO  
**SUBJECT:** FEDERAL, STATE AND LOCAL TAX ISSUES ASSOCIATED WITH  
UNIVERSITY POSTDOCTORAL APPOINTMENTS  
**DATE:** 12/10/2010

Due to a recent review associated with the University of Pennsylvania's postdoctoral appointments, we have revised procedures regarding the withholding of taxes on stipends in order to ensure compliance with Federal, Pennsylvania and Philadelphia taxing authorities.

Based on the facts and circumstances of the postdoctoral appointments as outlined in the University's Policy for Postdoctoral Fellows at the University of Pennsylvania, stipends provided to all recipients are considered non-compensatory and therefore not "wages" for Federal income or FICA tax withholding purposes.

However, postdoctoral stipends are taxable for Pennsylvania personal income tax and subject to withholding because such payments do not meet all of the fifteen conditions specified by the Pennsylvania Code for exclusion. The Pennsylvania personal income tax rate is currently 3.07% of income. These stipends are also taxable for the Pennsylvania Unemployment Contribution which is currently 0.08%.

In addition, the stipends are subject to City of Philadelphia wage taxes and withholding. These amounts usually change annually; effective July 1, 2010 the resident rate is 3.928% and 3.4985% on nonresidents for services performed inside the City. The Philadelphia Income Tax Regulations do not provide any specific exclusion from gross income for stipends or similar payments to graduate students.

The attached chart has been provided to assist you in understanding the impact of the changes to be made to tax withholding procedures beginning with payments made January 1, 2011 forward. ***Please note:*** These changes are not retroactive and apply only to payments going forward not for prior year payments.

Although no reporting or withholding is required for U.S. postdoctoral appointments, the individual must report and pay federal income tax on any payments in excess of tuition, fees, books, and certain other expenses. For additional information regarding an individual's responsibility for reporting such payments, please consult *IRS Publication 970: Tax Benefits for Education*. Further, there are special rules for nonresident aliens. For more information on tax treatment for nonresident aliens, please consult the *IRS Publication 519: U.S. Tax Guide for Aliens*.

If you have any questions or concerns, please feel free to contact me at any time. I can be reached on 215-898-8967 or via email [mpiccolo@upenn.edu](mailto:mpiccolo@upenn.edu).

**UNIVERSITY OF PENNSYLVANIA  
TAX IMPLICATIONS FOR POST-DOCTORAL APPOINTMENTS**

	<b>Post-Doctoral Researcher</b>		<b>Post-Doctoral Fellow</b>		<b>NRSA Post-Doctoral Fellow</b>	
	<u>Current</u>	<u>Future</u>	<u>Current</u>	<u>Future</u>	<u>Current</u>	<u>Future</u>
<i>Federal Income Tax</i>	T	Not required to Withhold	T	Not required to Withhold	T	Not required to Withhold
<i>Pennsylvania Income Tax</i>	T	T	E	T	E	T
<i>City of Philadelphia Wage Tax</i>	T	T	T	T	T	T
<i>FICA/Medicare</i>	T	E	E	E	E	E
<i>PA UC</i>	T	T	E	T	E	T
<i>W-2</i>	Y	Y	Y	Y	Y	Y
<i>1042-S</i>	Y	N	Y	N	Y	N