



INVESTMENT & TAX SERVICES

December 12, 2005

Taxation of Payments made to Human Subjects

Overview

The University often conducts research projects that involve the use of Human Subjects. "Human Subject" refers to a living individual about whom an investigator (whether professional or student) conducting research obtains data through intervention or interaction with the individual. Generally, Human Subjects are paid in the form of cash to participate in such research projects. The Internal Revenue Service (IRS) requires Human Subject payments aggregating \$600 or more paid to an individual during a calendar year to be reported on Form 1099-MISC, Miscellaneous Income.

Taxation Issues of Human Subject Payments

Unless the Human Subject payment is for a confidential study, the University is required to request the Human Subject's Social Security Number (SSN) in order to fulfill the University's tax reporting responsibilities with the IRS. Subjects may be requested to complete IRS form W-9 "Request for Taxpayer Identification number". Once the University obtains the Human Subject's SSN, his/her SSN should be kept by Human Resources as confidential information.

The University is required to report payments equal to or greater than \$600 on Form 1099-MISC. For non-cash payments such as gift certificates, clothing, etc., the value of such non-cash payments must be determined and the \$600 threshold applied. Therefore, for studies where the value of the transaction(s) is not equal to or greater than \$600, the University is not required to report such information to the IRS and, therefore, is not required to request the Human Subject's SSN. However, the University strongly encourages requesting the Human Subject's SSN if the value is greater than \$100, as Human Subjects may participate in several studies with a cumulative value equal to or greater than \$600. In these situations, the University is required to report the cumulative value on Form 1099-MISC.

In situations where the University is not required to report payments due to the cumulative value being less than \$600, Human Subjects still need to report such payment(s) on his/her individual income tax return. Human Subjects should consult with his/her individual tax advisor regarding reporting requirements for these payments.

Human Subjects Payments in Confidential Studies

In certain circumstances, various research studies are performed to protect the privacy of the Human Subjects and to maintain the confidentiality of the data. If the research study has been approved to be confidential in nature, it is not necessary to identify the Human Subject by name or SSN. However, the total payments to any individual participating in confidential studies cannot be equal to or greater than \$600.

Employees

Payments made to Human Subjects who are also employees of the University are treated the same unless the relationship of an employer/employee exists within the study; however, nonresident aliens are treated differently. In the case where an employer/employee relationship exists, the payment is reported on the individual's Form W-2, Wage and Tax Statement. For additional information regarding independent contractors versus employees, see the Investment and Tax Services web site http://www.virginia.edu/finance/its/taxforms/contractor_checklist.pdf.

Nonresident Aliens

Payments made to Human Subjects who are nonresident aliens, regardless of whether or not treated as employees, are reported on Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, regardless of the amount, and are subject to 30% federal income tax withholding. However, nonresident aliens might be able to claim exemption from federal income tax withholding under a United States tax treaty; thus, payments may be exempt from withholding if a tax treaty exists with the country of citizenship of the nonresident alien. To take advantage of a tax treaty, such paperwork must be processed before payment is made.