

VERMONT STATE COLLEGES SYSTEM

CHANCELLOR'S PROCEDURES FOR IMPLEMENTING POLICY 408:
PARTICIPANT COMPENSATION

I. PURPOSE

To comply with IRS regulations and to ensure confidentiality of individuals receiving compensation for participating in sponsored activities, the following procedures have been approved by the Chancellor pursuant to VSC Policy 408, *Grants and External Funding*.

II. PROCEDURES

A. Allowability

A sponsored project may compensate participants if such compensation is part of the established scope of work and is allowable by the award's terms and conditions. The procedures apply to participants in research projects as well as to participants in other sponsored projects that include participant compensation. Participants of internally funded research projects may also receive compensation provided that the project has received IRB approval.

B. Method of Compensation

Participants may be compensated via Accounts Payable, Payroll, or a gift card, depending on the circumstances. All methods of compensation are considered taxable income. Gift cards are considered the equivalent of cash, according to IRS regulations.

To determine the appropriate method of payment, the following factors must be considered:

1. Whether or not the participant is a VSC employee, or was an employee during the same calendar year when the compensation will be provided
All payments made to employees are considered as supplemental wages and are taxable. These payments must be processed through Payroll. ***Employees, including student employees, may not receive gift cards as a form of participant compensation.***
2. The dollar amount and frequency of the compensation

Individuals may be compensated for participation in more than one sponsored project per year. The maximum amount that a participant can receive as total compensation via gift cards is \$100 per calendar year, unless an exemption has been pre-approved by the Office of Sponsored Programs or equivalent office.

3. The level of confidentiality required

Gift cards maintain the maximum amount of confidentiality for participants. However, the following identifying information will still be collected for participants receiving a gift card: first name, last name, email address, and nonresident foreign national status. The participant's name is required so the VSC can determine that each recipient does not go over the mandatory IRS reporting threshold of \$600 per calendar year. The email is required because the gift cards are distributed electronically, with the link to the card sent to the participant's email address.

C. Non-Employee Compensation Process

The Principal Investigator (PI) or grant manager will provide each participant with a link to fill out a Participant Compensation Form. If the amount of total compensation is \$100 or less per research study or per non-research project, the compensation can be provided via gift card. If it is over \$100 per study or project, compensation must be paid via a check from Accounts Payable, unless an exemption is pre-approved by the Office of Sponsored Programs or equivalent office.

Regardless of the method used for payment, any non-employee participant who receives compensation aggregating \$600 or more per calendar year will receive IRS Form 1099-MISC with the amount documented.

1. Accounts Payable process

A PI may choose to reimburse participants with a check if the participants are not employed by the VSC. The PI will submit a Request for Payment to Accounts Payable. This will include the Participant Compensation Form and a W-9 form, which requires a participant's Social Security Number.

2. Gift card process

If the compensation per study or other sponsored project is \$100 or less per calendar year, participants can receive a gift card. If the compensation is over \$100 per study or sponsored activity, the PI may apply for an exemption to use a gift card instead of a check. Gift cards cannot be purchased using a p-card, personal funds, or petty cash. The VSC utilizes a third-party vendor for gift card

distribution. Before gift cards can be issued for a sponsored project, the PI must complete a [Gift Card Request Form](#) that identifies the sponsored project to be charged and the method of distribution. Upon receiving the Gift Card Request Form, the VSC Shared Services Finance Department will add the sponsored project's GL account numbers to the VSC account with the third-party vendor. The PI is responsible for distributing the link to participants that will allow them to access the gift cards.

In some rare cases, when pre-approved by the Office of Sponsored Programs or equivalent office, a PI may need to distribute physical gift cards. In this situation, the PI will need to work with Accounts Payable to pay the vendor via check for the gift cards. If physical cards are distributed, the PI is responsible for keeping them in a secure location and maintaining a distribution log.

Gift cards that are not claimed within the timeframe outlined in Vermont Statute Title 27 § 1466 are considered unclaimed property.

D. Employee Compensation Process

VSC employees, including student employees, must be compensated for their participation through Payroll. The PI will submit a Stipend Request for each participant. Any compensation issued for participation in a sponsored project will be included in the employee's next regularly scheduled paycheck, with the requisite withholding taxes applied.

E. Nonresident Foreign National Compensation Process

Due to special withholding requirements (IRS Form 1042-S entitled "Foreign Person's U.S. Source Income Subject to Withholding"), payments to nonresident foreign nationals require additional reporting to the IRS, regardless of the dollar amount. Because of these requirements, the VSC does not allow cash or gift card payments to be paid to nonresident foreign nationals. Instead, payments to participants who are nonresident foreign nationals must be issued by check and are subject to 30% federal income tax.

PIs who anticipate that a nonresident foreign national will receive compensation should contact their institution's Office of Sponsored Programs, or equivalent office, to be guided on next steps.

F. Review by Sponsored Programs or Equivalent Office

All participant compensation payments shall be approved by the Office of Sponsored Programs, or equivalent office, prior to the offer of payment.

G. Reporting to the IRS

The VSC must report to the IRS the name, address, and social security number of any person who receives \$600 or more in participant compensation in a calendar year.