

# Foreign National Tax Frequently Asked Questions

## **What is a tax analysis and why do I need one?**

A tax analysis is a detailed review by the UA Tax Office to determine your tax status (resident alien or nonresident alien); to determine whether you will be exempt from federal income tax and social security tax; and to give you the opportunity to ask questions regarding your tax situation.

## **Who must have a tax analysis?**

All foreign nationals who are receiving income from UA are required to have a tax analysis. This includes student employees (GRAs, GTAs, Student Assistants), athletic scholarship recipients, fellowship recipients, postdoctoral research fellows, visiting scholars, prize/award recipients, royalty recipients, research participants, and independent contractors.

## **When should the tax analysis be done?**

The tax analysis should be done as soon as you know that you will be receiving financial assistance from UA.

## **How often should I have a tax analysis?**

If you are receiving income from UA, a tax analysis should be done immediately upon arrival and annually thereafter. You must have an updated tax analysis anytime your status changes.

## **If I do not have a tax analysis, what will happen?**

You will pay taxes at the default tax rate, which is the highest rate. If you are from a treaty country and you are eligible for benefits, your income will still be taxed. No refunds will be granted because an individual fails to schedule a tax analysis.

## **What does “treaty exempt” mean?**

“Treaty exempt” means that if all criteria are met and the proper forms are completed, you will not have to pay federal tax on all or a portion of your income under provisions of a tax treaty between the United States and your country of tax residence.

## **What taxes are covered under an income tax treaty?**

The income tax treaty covers federal income tax. The State of Alabama does not honor income tax treaties.

## **I am only receiving a tuition waiver; do I still need to have a tax analysis?**

No. Tuition waivers are “qualified scholarships.” Qualified scholarships are not subject to federal tax withholding nor are they reportable to the Internal Revenue Service.

## **What are FICA taxes and how can I be exempt?**

Federal Insurance Contribution Act, commonly referred to as FICA, imposes two taxes, one on the employer and the other on the employee. The taxes, also referred to “Social Security Tax,” finance the Old Age/Survivors/Disability Insurance and the Medicare Insurance provided under the Social Security Act. U.S. citizens and resident aliens pay these taxes. Nonresident aliens may be exempt from these taxes under section 3121(b)(19) or section 3121(b)(10) of the Internal Revenue Code.

**Do I need a Social Security Number (SSN)? Why?**

All foreign nationals who are legally admitted with permission to work in the U.S. are required to have a SSN. UA is required by law to furnish your SSN to the Internal Revenue Service. You are also required by law to file a U.S. income tax return, which requires your SSN. Contact Capstone International Services for guidance on applying for a SSN.

**I have applied for my SSN, but I have not received it yet. Will I still be eligible for treaty benefits?**

No. Treaty benefits cannot be granted without a SSN, but the tax analysis can still be done. Once you receive your SSN, provide a copy to the Tax Office and treaty benefits will begin at that time.

**What part of my scholarship is taxable to me?**

Section 117 of the Internal Revenue Code exempts from federal tax any scholarship, fellowship and/or grant amounts that pay for tuition, required fees and books. These amounts are referred to as “qualified scholarships.” Amounts paid in excess of these charges are considered “nonqualified” and are subject to 14% federal tax withholding, unless exempt by tax treaty. Examples of nonqualified charges include: room and board, travel, living expense stipends, **health insurance grants**, Dining Dollars, and SEC Student Opportunity Fund Assistance.

**I am a married nonresident alien, why is my federal tax withheld at the “Single” rate?**

To avoid under-withholding of income tax, the nonresident is required to have federal tax withheld at the “Single” rate with one personal exemption regardless of your actual marital status. Paying taxes at the Single rate does not mean you are claiming to be single.

**I arrived 6 months ago on F-2 dependent visa, I have now changed to F-1; do I qualify for treaty benefits?**

No. If you do not change your immigration status within 60 days of arrival in the dependent status, you must return to your home country for 1 year (365 days) to re-establish residency in order to be eligible to receive treaty benefits

**Why am I classified as a resident alien for tax purposes?**

Your tax status is determined by the number of calendar years (not actual years) you are present in the U.S. F-1/J-1 students are exempt from counting days of presence for purposes of the substantial presence test for a total of 5 calendar years. For example, if you arrived on December 31, 2021, that one day of presence counts as 1 full year. Your exempt years are 2021, 2022, 2023, 2024, and 2025. In the year 2026, if you will be present in the U.S. for at least 183 days you will be a resident alien for tax purposes retroactive to January 1, 2026. J-1 non-students are exempt from counting days for 2 calendar years, provided that this is their first visit to the U.S.