

### Payment to Cultural Exchange Interns PCG-INT

The Division of Accounting (DOA) Payroll Compliance Group (PCG) reviews the eligibility for tax treaty benefits and maintains payment records in order to produce 1042 reporting for stipends paid to interns through the Accounts Payable System. PCG will ensure tax withholding is reported to the Office of State Treasurer (OST) for remittance.

1. Organizations must notify the Payroll Compliance Group of any interns at the Organization through a Training/Internship Placement plan.
2. The Organization will submit the *Organization Nonresident/Resident Checklist* along with supporting documentation to PCG.
3. PCG will review the documentation and determine the tax treaty eligibility for the intern.
4. PCG will provide Organization with an IRS Form W-8 BEN to be completed by the intern.
5. PCG will work with FSF to get the intern established in FSF as a vendor.
6. IRS regulations require a flat 14% withholding for stipends paid to interns.
  - a. The Organization will pay the monthly stipend through FSF.
  - b. PCG must be set up as an Ad Hoc reviewer in the voucher record.
  - c. The Organization may choose to deduct the 14% flat withholding from the stipend payment or fund the intern's tax as additional expense.
    - i. PCG must be notified of payment method.
  - d. Example: Monthly Stipend is \$200.00
    - Option 1: (flat withholding)  
Pay the intern \$172.00 through FSF and PCG will process a journal entry for \$28 Federal withholding. Cost to Org \$200.00. Amount reported on 1042 will be \$200.00
    - Option 2: (Gross Up)  
Pay the intern \$200.00 through FSF and PCG will process a journal entry for \$32.56 Federal withholding. Cost to Organization is \$232.56. Amount reported on 1042 will be \$232.56.
  - e. PCG will monitor the payments and perform Journal entries to ensure payment of the withholding. Remittance of federal tax must be completed on the next business day following payment.
  - f. The Organization will provide the funding string for the federal tax.

7. PCG will produce and distribute 1042-S forms to the interns by January 31 of the following calendar year.

**SUPPORTING DOCUMENTS:**

*Organization Nonresident/Resident Checklist*

<https://accountingfiles.delaware.gov/docs/Organization-NRA-Checklist-Fillable.pdf>

*Nonresident Intake and Information Form*

[https://accountingfiles.delaware.gov/docs/Nonresident Intake and Information Form.pdf](https://accountingfiles.delaware.gov/docs/Nonresident_Intake_and_Information_Form.pdf)