The Wage or Stipend Debate

What It Is:

A stipend is equivalent to payment of a living allowance for training or learning experience. A wage is generally a payment of services rendered and an employer/employee relationship exists and payment is usually paid through a payroll system.

Why It Matters:

Participants at YouthBuild programs are often given need-based funding in order to assist with living expenses while attending YouthBuild. These funds can come to students in a variety of ways and amounts. For additional information, go to the Community of Practice under New Site Webinar, and select webinar #6. Understanding the difference between using stipend or wage as the payment type for your YouthBuild program has specific implications in relationship to the Internal Revenue Service (IRS) deductions.

If your program chooses to pay a wage:

This is an indication that participants are paid through a payroll system. Wages will be subject to the taxes applicable to the agency and to the participants. Paying a wage may indicate that the program views that student as an employee or a trainee (participating in a training program). Most often programs that view their participants in this way pay social security tax (employer at 7.65% and employee pays 7.65%) and students often complete a W-4 state and federal tax form. Appropriate tax withholding is withheld as indicated by the W-4 form.

- A W-2 form will be issued to students at year end for tax purposes. Programs may choose to pay a wage for 100% of the time the participant is in the program or may choose to specify between vocational, educational and leadership, paying a differing amount (or no amount) depending on where the participant spends time.
- When a wage is paid, the program usually provides workers compensation insurance for the participant. Workers compensation laws vary from state to state, however, usually are applicable when a wage is paid. Click here for more information. Worker compensation costs are based upon total compensation per class of employee. The riskier the occupation class the greater the percentage cost. Construction work can be very high and programs will want to consider this when determining the range of construction activities the youth will participate in. Roofing, for example, may not be an option on a proposed home with a very high pitch roof. It may be an option where a roof is flat or of a pueblo-type design. Often programs will keep track of the amount of time participants spend engaged in hands-on construction training (a high cost) and amounts of time that participants spend in classroom or leadership (lower cost) in order to mitigate workers compensation costs and better reflect risk. This means that the program will need individual participant time to be broken down by time spent in various activities in order to be able to certify the time reflected when audited. Workers compensations audits usually occur annually to verify time breakdowns and occupational codes. This could ultimately mean a cost adjustment, thus programs should try to budget accordingly.
In most situations the YouthBuild awardee will be responsible for fiscal and insurance costs for the program. Programs that have major operational partners will need to decide which partner will be responsible for participant payroll. Usually, it is the site that also takes responsibility for the workers compensation insurance. Unemployment insurance must also be considered. Programs that consider their participants employees or trainees may need to get a determination from their State Department of Labor as to whether the participant should be included or excluded. Unemployment insurance is paid by the employer and when the participant terminates they may or may not be eligible for unemployment compensations based upon what is decided.

If the parent organization sponsoring your YouthBuild program decides to treat the young people as part-time employees, then, unless allowances are made that exempt the employees from the organizations employee drug policies, YouthBuild employees will be subject to termination (should they test positive in a drug screen). Without such allowances, the YouthBuild program might be limited in the parameters in which it can work with the young people who test positive. This is a topic that should be resolved prior to mental toughness orientation in order for young people to be clear informed. One solution is for the YouthBuild program to have a separate policy within that of the larger organization.

If your program chooses to pay a stipend:
Many sites choose to view their participants as students. Students in a YouthBuild program often receive a need based stipend (also referred to as a living allowance, scholarship, incentive, etc.) When sites choose to view their participants as students, it is a distinct decision to NOT view them as employees or trainees.

- For programs that choose this option, it is highly advised to get an IRS determination that the participants are NOT employees. The appropriate form to use is the IRS SS-8 form. Reportedly, the process is not difficult and worth the effort, according to several YouthBuild program administrators.
- If the SS-8 determination finds that the participants are not employees, the program will not be responsible for social security taxes, nor any payroll withholdings. Often programs will not use payroll to manage this system as there is no tax responsibility.
- The program WILL issue a 1099 MISC to the student at year end tracking payments made. Students and sites are encouraged to seek tax advice regarding the 1099 and student income tax, specifically the student’s eligibility for the earned income tax credit.
- Programs that pay a stipend may not be eligible for worker’s compensation insurance coverage for their participants; instead a school or student accident policy should be sought. Programs should fully discuss their participants’ activities with their insurance advisor to make sure that the organization and the student is adequately protected.
Getting Started:

Step 1: Seek legal and/or accounting counsel

- Before setting up or changing the funding system at your program for YouthBuild participants, it's important to make sure that you are incorporating the right system that ensures compliance with the IRS and DOL.
- Wage payments are usually paid via the program/agency payroll, while the stipend generally gets paid through accounts payable.

Step 2: Complete the SS-8 application

- Determine the worker status for purposes of IRS Federal Employment Taxes and Income Tax withholding.
- Click HERE for an example of a completed application.

Step 3: Determine if deductions will be made from student payments

- If the student is categorized as an employee, paid wages and receives a paycheck via the agency payroll, then FICA will be deducted from each paycheck.
- Income taxes will not be deducted if the student is paid a stipend via accounts payable.

Step 4: Help students determine their income tax liability

- Students will be sent an IRS W-2 form by January 31 for the preceding year, if paid a wage.
- Students paid a stipend; in excess of $599.99 will receive an IRS form 1099 MISC by January 31 for the previous year.