



WIOA

Professional Development

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Wages vs Stipends Overview

Session Agenda

- Clarify the difference between wages and stipends
- Understand compliance under Uniform Guidance (2 CFR 200)
- IRS Review
- Compliance Scenarios



Wages

- ☐ Payment for service performed by an employee
- ☐ Typically based on hours worked or deliverables.
- ☐ Wages are associated with fringe benefits.
- ☐ Must comply with Fair Labor Standards Act (FLSA) and Uniform Guidance §200.430 – Compensation for Personal Services.

Example: Administrative Assistant hired to work \$25/hour. Employee is paid through payroll, appropriate taxes are applied, employee may also have additional benefits based on the organization's personnel policy.

What is a Stipend?

- Fixed amount to support participant expenses during training, education, or service.
- Not tied to hourly work or production
- Governed by Uniform Guidance §200.431 – Compensation – Fringe Benefits and program grant rules.
- Example: Participant received a \$50 stipend for completing a milestone outlined within the training program.



Some Key Differences

Aspect	Wages	Stipends
Legal Status	Employee Compensation	Participant Support
Basis	Hours worked/output	Fixed Amount
Regulation	2 CFR §200.430 (Personal Services)	2 CFR §200.431 (Fringe/Participant Support)
Tax Status	Subject to withholding (W-2)	Maybe taxable (1099 or none)
Minimum Wage	Required by Law	Typically Exempt
Common Use	Hired Staff/Employees	Program Participants

Stipends and Taxable Income

Even though stipend are not wages, they can still be taxable income under IRS rules. Stipends are usually considered “non-employee compensation”

Stipends can be taxable if the participant works or provides value in exchange for payment.

Funds are not used exclusively for education expenses like books or supplies or tied to a scholarship.

Summary Table

Situation	Taxable?	1099 Required?
Stipend <\$600 for participation/training	Yes, still taxable income	No 1099 is required, but recipient should report it.
Stipend ≥\$600 for participation/training	Yes, taxable income	Yes, 1009-NEC is required
Supportive Services used for books, supplies, travel	Not taxable	No 1099 required

- The \$600 threshold only affects reporting, not taxability
- Stipends are generally taxable unless used exclusively for tuition, books, or required supplies.
- Always collect W-9s and track total payment per participant.
- Clearly communicate to participants that stipends may be subject to taxable income.

What about Gift Cards?

- The IRS Treats Gift Cards as Cash Equivalent
- If your organization provides gift cards to participants as part of a stipend or incentive, here's how it works:

Scenario	IRS View	Tax Treatment
Gift card for attending training sessions	Payment for participation	Taxable income
Gift card for completing milestones (e.g. finishing a module or job interview)	Incentive or award	Taxable income
Gift card for employees or staff	Wages	Report on W-2 and withhold wages.

Wages & Stipends for Work Experience

- Determination of whether to pay a stipend or wages for a paid work experience is left up to the grantee. Methodology must be document in local policy.
- A stipend is usually a set amount given for participation/completion of an activity. This compensation can be given out in equal payments over a defined period of time. The case file must contain documentation of the activity or goal that must be achieved to result in a stipend.
- Stipends may be allowable if provided when classroom activities and work-based learning are provided concurrently with each other. In this instance, stipends are only allowed for the work-based learning portion and must be documented in the Individual Employment Plan (IEP)/Individual Service Strategy (ISS).
- **Stipends are not allowed to pay for “seat time” for participation in classroom activities or occupational skills training.**
- Payment of partial stipends may be made to participants that fail to complete a portion of their work experience activity. However, the participant’s case file must contain documentation (at least a case note) regarding the reason for failure to complete and the period of time or activities that were completed.

Supportive Services/Barrier Reduction

Type of Payment	Purpose	IRS Treatment	Examples
Supportive Services/Barrier Reduction	Reimbursement for actual expense - transportation, childcare, work clothes, tools, etc.	Not taxable if documented and directly reimbursed for expense	Participant submits gas receipts or childcare invoice and is reimbursed.
Needs – Related Payments	Financial assistance to support participation in training.	Taxable, treated like income replacement.	Participant receives \$150 per week during classroom training.
Stipends	Payment for participation or performance in training.	Taxable, treated as income.	\$500 stipend for completing pre-apprenticeship.
Tuition or Books Paid Directly to School/Vendor	Educational Expense	Not Taxable	Program pays tuition directly to training program.

Best Practices

- Keep thorough records for auditors, monitors, and funder.
- Communicate tax implications to participants in writing.



Clearly define employee and participant roles



Use consistent policies across all applicable grant programs



Review allowable costs outlined in your grant agreement and uniform budget. If grantee's have subrecipients, please ensure these practices are outlined in your contractual agreements.



Keep written documentation for each payment. Please ensure that local policies clearly identify the procedures for issuing stipends and/or wages for participants.



Coordinate efforts with your fiscal and HR personnel.

Non-Compliance Implications

- Disallowed costs during monitoring of grant program
- Repayment of grant funds
- Potential IRS or DOL issues
- Financial burden on participant



Stipend Policy

Purpose: To establish consistent procedures for issuing stipends and gift cards to program participants, ensuring compliance with IRS regulations, the Fair Labor Standards Act (FLSA), and Uniform Guidance (2 CFR 200).

Scope: This policy applies to all workforce development programs operated or funded by [Your Organization Name].

1. Definition of Terms Stipend: A fixed payment provided to support participant engagement in training, education, or work-based learning activities.

Gift Card: A prepaid card (e.g., Visa, Mastercard, retail card) provided as a stipend or incentive. Considered a cash equivalent and therefore taxable income.

2. Policy Statement

Stipends and gift cards are issued to participants, not employees, to encourage participation or offset expenses during training or service activities. All stipends and gift cards are considered participant

support costs under 2 CFR §200.466 and must be allowable, reasonable, and allocable under the terms of the grant or funding source, and properly documented and reported in accordance with IRS and federal regulations.

3. Payment Methods

Stipends may be issued by check, direct deposit, or gift card. Gift cards must be purchased through the organization's approved procurement process, logged by serial number, amount, and recipient, and stored securely until distribution. The value of all gift cards is treated as taxable income to the participant.

Recommended Next Steps



- ✓ Review Current Policy
- ✓ Ensure that internal process aligns with policy.
- ✓ Update as needed to ensure compliance
- ✓ Review Uniform Guidance guidelines

Questions and Answers

