

# Tax Considerations for Graduate Students

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Important Information Related to Tuition Assistance Benefit and/or Tuition Remission

**Disclaimer** | The information contained herein is accurate to the best of the Graduate School's knowledge, as of February 2009. It is not intended to serve as a substitute for professional tax advice. Contact Marv Hackert, Associate Dean, or Terry Newman, Assistant Vice President in the Graduate School for further information.



# Origins of Tuition Assistance Benefit

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## **Problems with Tuition:** Tuition payments are due at beginning of semester —

- Any salary increase for TAs would be spread over nine months with the first paycheck not available until October 1, which does not help with tuition payments due at the beginning of the semester.
- Tuition assistance benefit began in **1997** as part of the compensation package for TAs/AIs that could be paid as an upfront payment at the beginning of the semester.
- **Tuition assistance benefit is taxable because it was not a fellowship, but created to be part of compensation for the TA/AI position.** At that time it had to be viewed as compensation, it could not be viewed otherwise because it attaches precisely to these jobs and nothing else.

# TA / AI Compensation (Tuition Assistance Benefit)

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As part of their compensation, teaching assistants appointed half time or greater will receive tuition assistance in the amount of \$3,258 a semester.

Those appointed between 10 (25% time) and 19 hours a week (47.5% time) will receive \$1,629 in tuition assistance. Teaching assistants appointed for fewer than 10 hours a week do not qualify for tuition assistance.

Tuition assistance totaling \$1,218 will be provided to teaching assistants appointed half time or greater for the summer session, regardless of the length of the session or number of sessions (i.e., six, nine, or twelve weeks).

From

[UT Austin Policy Memorandum 8.101 - Rates of Pay and Notification of Proposed Employment for Teaching Assistants](#)

# Tuition Assistance Process —

## How the Tuition Assistance Benefit is credited to your tuition bill

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- An appointment as a TA or AI entitles the student to the tuition assistance payment.
- 75% of the total assistance entitlement is applied to the student's tuition bill.
- Tuition Credit shown as “Third Party Billing” on tuition bill.
- Student pays remainder of tuition bill when due. The payment deadlines have been permanently extended to the fourth (4th) class day for long semesters and the second (2nd) class day for the summer.

# Tax Status of the Tuition Assistance Benefit

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When the tuition assistance benefit program started in 1997, it was characterized as a benefit being provided in lieu of a salary increase. Therefore UT Austin had to treat it as compensation.

In the intervening years, it was determined that the TA compensation level has risen sufficiently to represent reasonable compensation for the services performed and therefore opened up the option to apply IRC 117(d) to treat the benefit as nontaxable. (Section 117 has been in effect since 1986.)

# Lifetime Learning Tax Credit

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## What Is It?

- The **Lifetime Learning Credit** is a **tax credit** available to individuals who file a tax return and owe taxes. The amount of the credit is **subtracted from the taxes owed, rather than reducing taxable income as with a tax deduction**.
- Taxpayers who owe less tax than the maximum amount of the Lifetime Learning tax credit for which they are eligible can only take a credit up to the amount of taxes owed.
- The amount of the Lifetime Learning tax credit is **20% of the first \$10,000** of qualified educational expenses paid for all eligible students. Therefore, the **maximum amount** of a Lifetime Learning tax credit is **\$2,000**.
- The Lifetime Learning credit is available for **all years** of post-secondary education. The Lifetime Learning Tax Credit is **gradually reduced (phased out)** for those with modified adjusted gross incomes (MAGI) above **\$47,000** (in 2007).
- The law specifies that schools will send this information by January 31, 2008, in the form of a **1098-T** statement to individual taxpayers and to the IRS. Taxpayers will use this information and their own records about tuition and fees paid when **they fill out the IRS Form 8863 to claim the tax credit**.

Read full explanation of the [Lifetime Learning Credit](#)

# Tuition Assistance Benefit Included in Gross Income

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**QUESTION:** Can TAs/Als save money by having their tuition assistance benefit payments included in their gross income?

**You can** if you are eligible to claim the Lifetime Learning Credit and your income tax bracket is less than 20%.

For example—If you are in the 10% tax bracket and receive the maximum of \$7734 in tuition assistance, you would owe \$773 in taxes on the tuition assistance but would be able to claim \$1546 in a tax credit to reduce your tax bill, resulting in a net savings of about \$773 (However, tax rates vary with income so the savings vary with income. See next slide for a more detailed analysis).

Note: The Lifetime Learning Credit is gradually reduced (phased out) for those with modified adjusted gross incomes (MAGI) above \$47,000 (in 2007). Also, **nonresident aliens generally are not eligible** to claim the Lifetime Learning Credit.

**Exhibit 1 - Single Graduate Student**

**Assumptions:**

Tax Year - for tax rates and credit phase-out amount	<b>2006</b>
9 month appointment, 20 hours per week total salary	16,570
12 month appointment, 20 hours per week total salary	22,093
Tuition assistance payment = Maximum exclusion amount per IRC Sec. 127	5,250
Current Situation - Tuition assistance payment, Tuition expenses exceed \$10,000	

**A. Est. Tax including the tuition assistance as taxable income**

	No other income	9 month appointment	12 month appointment	9 month appointment and \$20,000 of additional income	indifference point — \$55,000 AGI	9 month appointment and \$50,000 of additional income
AGI	5,250	21,820	27,343	41,820		71,820
Less:						
Standard Deduction	5,000	5,000	5,000	5,000		5,000
Personal Exemption	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>		<u>3,200</u>
Taxable Income	<u>0</u>	<u>13,620</u>	<u>19,143</u>	<u>33,620</u>		<u>63,620</u>
Tax	0	1,666	2,494	4,943		12,443
Less: Credit	0	2,000	2,000	2,000		0
Net tax liability	<u>0</u>	<u>0</u>	<u>494</u>	<u>2,943</u>		<u>12,443</u>

**B. Est. Tax excluding the tuition assistance as taxable income**

	No other income	9 month appointment	12 month appointment	9 month appointment and \$20,000 of additional income	indifference point — \$55,000 AGI	9 month appointment and \$50,000 of additional income
AGI	0	16,570	22,093	36,570		66,570
Less:						
Standard Deduction	5,000	5,000	5,000	5,000		5,000
Personal Exemption	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>	<u>3,200</u>		<u>3,200</u>
Taxable Income	<u>0</u>	8,370	13,893	28,370		58,370
Net tax liability	<u>0</u>	<u>878</u>	<u>1,707</u>	<u>3,878</u>		<u>11,130</u>
Advantage with option A	*	\$878	\$1,213	\$935		<b>-\$1,313</b>

# Tuition Remission

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**Tuition Remission** is departmental payment of all or a portion of a student's fee bill. The student does not receive any funds directly. **The department must indicate whether the student is providing services in exchange for the award.** If so, the amount is treated as wages, applicable withholdings deducted, and the net amount applied to the fee bill. If not, the full amount is applied to the fee bill.

**Tuition Remission amounts charged to federal grant accounts are subject to regulations outlined in OMB Circular A-21.** The charges are allowable only if the recipient is performing work toward the project being funded. **Therefore, all tuition remission awards on federal grants are treated as wages.**

Non-wage tuition remission is a qualified scholarship and therefore not included on IRS Form W-2 or 1042S. It is included in the scholarship amount on Form 1098T.

Wage tuition remission is part of gross pay and reported as wages in Box 1 of IRS Form **W-2**. Any portion of gross pay that is exempt under tax treaty for a foreign person is reported on **Form 1042S**. Wage tuition remission is not included in amounts reported on **1098T**.

# Summary—Processed as Taxable Wages?

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- **Tuition Assistance Benefit — Yes**
- Tuition Remission **Federal Grants — Yes**
- Tuition Remission Other Funds and **Services Required — Yes**
- Tuition Remission Other Funds and **Services not Required — No**

# More Sources of Information

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Internal Revenue Service:

[Lifetime Learning Credit](#)

National Association of Student Financial Aid Administrators:

[2008 Federal Education Tax Benefits Guide](#)

Graduate Coordinator Network (GCN):

[Graduate Student Tax Seminar](#)

[Tuition or Not Tuition](#) (.pdf) by Leslie Saucedo, UT Payroll

[Federal Taxes & Education](#) (.pdf) by Jamie Stewart & David Davila, IRS Senior Tax Consultants

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