

Communication to Principal Investigators

September 2009 Regarding FY 2009-10

Key Points:

GRAs' tuition remission documents (SS2s) -- including those on both federal funds and federal funds passing through another entity -- must be processed as "duties required".

When the SS2 is properly processed as "duties required," then the tuition remission compensation gets appropriately reported as effort in compliance with federal regulation.

Principal Investigators, when you certify effort for your Graduate Research Assistants (GRAs) that was compensated with tuition remission in lieu of salary, or as salary, you are certifying that the GRA performed duties that are essential to the sponsored project as a condition of earning their compensation.

Please share this information with the administrator(s) that process your Graduate Research Assistants' tuition remission documents (SS2s) as a reminder to ensure compliance with university policy and federal regulation.

Explanation:

While we understand that processing the tuition remission documents (SS2s) as "duties required" causes the tuition remission to be taxed, these SS2s must be processed as "duties required" because the tuition is compensation to the student for work performed that is essential to the sponsored project in accordance with the regulation.

Currently at this university no means exists by which the SS2s can be processed as "duties required" and simultaneously be withheld from a taxable status. The regulations do allow for this possibility, but the policy that the university has adopted does not allow for this outcome. Currently in the accounting system of this university any SS2 that is compensation for required duties is taxable, with no option in the system to prevent the taxation. The system was designed in alignment with the university's policy.

Our office is charged with the duty of complying with the federal regulations and with the published policies of our university, and likewise assisting the research community of our university with complying with the regulations and the published policies of our university.

Regulations:

The United States Office of Management and Budget (OMB) states in circular A-21, “However, tuition remission and other forms of compensation paid as, or in lieu of, wages to students performing necessary work are allowable provided that ... the tuition or other payments are reasonable compensation for the work performed and are **conditioned explicitly upon the performance of necessary work.**” This is the fourth of five stated conditions for allowability of tuition remission paid by a federal sponsor. This section of A-21, [J.45](#), continues on stating that, “Charges for tuition remission and other forms of compensation paid to students as, or in lieu of, salaries and wages shall be subject to the reporting requirements stipulated in Section J.10.” A-21 Section J.10 outlines the requirement for effort reporting by sponsored educational institutions. [A-21](#) is also located in the Code of Federal Regulations as [2 CFR, Part 220](#).

Principal Investigators, when you certify effort for your GRAs that was compensated with tuition remission in lieu of salary, or as salary, you are certifying that the GRA performed duties that are necessary to the sponsored project as a condition of earning their compensation.

Additional guidance and regulation is provided in the [Clarification Memo](#) that OMB issued in 2001, “Clarification: OMB in the Circular did not intend to tie the allowability of tuition remission costs to how they are treated for tax purposes.”

Policy:

Principal Investigators, the Handbook of Operating Procedures outlines policy for Graduate Research Assistants (GRAs) at The University of Texas at Austin. It is located here <http://www.utexas.edu/policies/hoppm/12.C.03.html> .

The policy relates to two pertinent policy memorandums (PM). PM 8102 states, “Tuition assistance is considered taxable income.”

<http://www.utexas.edu/policies/hoppm/pm8102.html> .

PM 8203 clarifies that: “Scholarship payments are not allowable expenditures on most federal research projects because the purpose of the award is research, not instruction. Tuition remission is not a scholarship; it is an alternate form of compensation.”

<http://www.utexas.edu/policies/hoppm/pm8203.html> .

The student Accounts Receivable section of the Office of Accounting publishes the following on their [Tuition Remission Frequently Asked Questions Website](#): “Your tuition, provided by your department in exchange for services, is subject to Federal Income and Social Security Withholding taxes. The total compensation, less taxes, has been applied to your tuition balance.”

The Graduate School has published the following on their Website: “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.”

http://www.utexas.edu/ogs/employment/tuition/tax_credit.pdf

If you have any questions about this information please contact SPAA’s Central Effort Coordinator, Amy Always at effort@austin.utexas.edu or by phone 471-3545.

Communicated in September 2009 by email to Unit Heads Who Paid Tuition (object codes 1124 or 1605) from Sponsored Funds during the period of 3/09—8/09 as Guidance for FY09-10.