



## INVESTMENT & TAX SERVICES

January 14, 2005

### Tuition Remission for Graduate Students

#### Issues

- What is the taxability of tuition remissions paid to graduate students (GTA and GRA)?
- What criteria are used to determine pay for study or for work for graduate students?
- Who is responsible for the reporting requirements for tuition remission payments?

#### Facts

- All GTA and GRA students holding at least a half-time appointment (10 hours per week) qualify for tuition remission.
- IRS allows tuition assistance for undergraduate as well as graduate students to be excluded from the student's income.
- Tuition remission is for qualified educational expenses for in-state tuition

#### Discussion and Analysis

All Graduate Teaching Assistants and Graduate Research Assistants who work at least 10 hours per week are eligible to receive tuition remission from the University. Tuition includes payment of in-state tuition and required fees, during the semester in which they are employed. Payments to these students must be for tuition assistance and not be for services performed. Payment for services performed must be at fair market value of such services and not include the value of the tuition assistance.

The University is not required to report educational assistance paid to a student even if such amount is taxable to the graduate student based on their eligibility. Reporting requirements are the sole responsibility of the recipient. The University maintains a database in the ISIS system that tracks graduate students' eligibility for tuition assistance (reduction).

Per my discussions with Howard Booker, GRA and GTA students are compensated based on services performed. Any tuition remission is an "additional" benefit and does not factor into their total compensation package. The University offers the tuition remission to its graduate assistants in order to bring in top-quality students into the graduate program.

We considered the *primary purpose/primary benefit* test that applies to whether a student's activities are for the *primary benefit* of the University or whether the student's activities are for the *primary purpose* of furthering the student's education and training. In order for the benefit to be excluded from the student's gross income, the activity must be for the primary purpose of furthering the student's educational purpose.

Amounts received by a student for teaching, research or other services, that are a condition of receiving a scholarship are not excluded from the student's gross income. The University should comply with applicable withholding and reporting requirements for these "wages".

### **Law and Authority**

IRS Publication 970 states educational organizations can exclude the value of a qualified tuition reduction it provides to an employee from that employee's wages. A tuition reduction for graduate education qualifies for this exclusion only if it is for the education of a graduate student who performs teaching or research activities for the educational organization.

Tuition remissions for graduate education are considered "qualified fellowship payments" and are tax free if they are provided by an eligible educational institution to a graduate student and are not part of the student's compensation for services performed as a teaching or research assistant.