Tax Reform Examples: Tuition Waivers and Remission and LLTC Changes

About one out of four students (24.4%) pursuing Doctor’s degree-research/scholarship in the Academic Year 2011-12 received institutional tuition and fee waivers with the average amount of $12,645.90. In addition, 6.2% of Master’s degree seeking students also received institutional tuition and fee waivers with the average amount of $6,510.80 in the Academic Year 2011-12. Eliminating this provision would increase tax liability for graduate students on “income” they never see.

Some hypothetical examples that illustrate the potential impact on tax liability for master’s and doctoral students:

- **Example #1** – Jane, a doctoral degree student at a private, not-for-profit institution had a $30,500 fellowship and was also credited with $18,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Jane’s tax liability would have been $24,550 and she would have paid $3,247.50 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Jane’s tax liability would increase to $43,050, despite the fact she would still take home the same amount of money, and she would have to pay $6,492.50 in federal income tax, or 21% of her fellowship.
    - Effectively, Jane’s federal income tax would increase by 100%, or $3,245.

- **Example #2** – Jose, a doctoral degree student at a public institution had a $14,500 fellowship and was also credited with $9,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Jose’s tax liability would have been $8,550 and he would have paid $847.50 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Jose’s tax liability would increase to $18,050, despite the fact he would still take home the same amount of money, and he would have to pay $2,272.50 in federal income tax, or 16% of his fellowship.
    - Effectively, Jose’s federal income tax would increase by 168%, or $1,425.

- **Example #3** – Mary, a master’s degree student at a public institution had a $7,000 stipend and was also credited with $6,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Mary’s tax liability would have been $1,050 and she would have paid $105 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Mary’s tax liability would increase to $7,550, despite the fact she would still take home the same amount of money, and she would have to pay $755 in federal income tax, or 11% of her stipend.
    - Effectively, Mary’s federal income tax would increase by 619%, or $650.

**NOTE:** These examples are based on the 2012 tax rules with a standard deduction of $5,950, and assume that each individual filed as a single with no source of income other than the financial awards in the examples.