

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.**
 - o *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.
 - o *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.**
 - o *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.
 - o *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.**
 - o *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.
 - o *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.