Internal Revenue Code Section 117 (d) Qualified Tuition Reductions

• Section 117 (d) of the Internal Revenue Code allows college or university employees to exclude from taxable income qualified undergraduate tuition reductions they or their immediate families receive from their employer. This exclusion applies to any education below the graduate level (including K-12), unless the recipient is a graduate student engaged in teaching or research.

• A qualified tuition reduction is often referred to as a “tuition remission” or “tuition waiver.” Regardless, it means that the institution pays some or all of the tuition for the employee or family member. Typically, the employee and immediate family members may use the benefit only at the employee's own institution, but the benefit is sometimes available to employees who attend other institutions. In these cases, institutions cooperating in a tuition waiver program may be part of a public higher education system or of a voluntary consortium.

• Employees representing all occupational groups in higher education – faculty, administrative staff, physical plant staff, security officers, and food service workers, to name a few – may receive tuition reductions either for themselves or their family members.

• According to the most recent data from the National Postsecondary Student Aid Study (NPSAS), 89 percent of those who receive Section 117 (d) qualified tuition reductions earn less than $100,000 a year. Approximately, 35 percent earn $25,000 or less a year, and 60 percent earn $50,000 or less a year.

• Tuition remission is an important job recruiting and retention tool for colleges and universities. Historically, the benefit has helped to offset the lower compensation levels offered by colleges and universities relative to the private sector. For example, faculty members with a Ph.D., M.D., or law degree could earn significantly more compensation in the private sector. Tuition waivers help universities attract and retain these bright and talented individuals who, in turn, serve the public interest through teaching and conducting research.

• Section 117 (d) tuition waivers provide critical assistance to employees who otherwise might not be able to afford undergraduate education for themselves or their families.

• Graduate research and teaching assistants also benefit from Section 117 (d). The tuition remission they receive is not subject to taxation.

• Limiting employee eligibility for or eliminating Section 117 (d) would increase the tax burden of employees who receive the benefit. It would discourage institutions from offering tuition waivers because it would increase the costs for both employees and institutions.

• A 1997 survey by the College and University Personnel Association for Human Resources (CUPA HR) found that:
  - Tuition waivers are widely available and used in every type of institution by employees in all occupation groups.
  - About 17 percent, or 425,000, of the 2.5 million employees in higher education participated in a tuition waiver program during 1996-1997.
  - Clerical and secretarial employees were the occupation group most likely to take advantage of tuition waivers.
  - In all occupational groups, except administrators, the employee was more likely to participate in a tuition waiver program than were his or her family members.
  - Full-time faculty members were most likely to have a family member receiving a tuition waiver.
  - Employee tuition waiver programs typically limit employees to part-time enrollment on a space available basis.
  - Nearly 75 percent of participating employees received a tuition waiver from an institution with tuition below $6,000, as did 68 percent of the family members.