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# Qualified Tuition Reduction for Employees of Education Institutions Internal Revenue Code Section 117 (d)

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University of Virginia

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The University of Wisconsin-Madison

Vanderbilt University

Washington University in St. Louis

Yale University

## What is It?

- Section 117 (d) of the Internal Revenue Code allows employees of certain educational institutions, including nonprofit universities and colleges, to exclude from taxable income qualified undergraduate tuition reductions they, or their dependents, receive from their employer.
- A qualified tuition reduction may be in the form of “tuition remission,” a “tuition waiver,” or a “tuition grant.” Regardless, it means that the university or college pays some or all of the tuition for the employee and/or his or her dependents.
- Under Section 117 (d), neither the institution as an employer or the employee pays federal income tax on the amount paid by the institution for tuition expenses. This lowers the federal tax liability of the employee and, potentially, the employer. The tax exclusion applies to tuition paid for education below the graduate level (including K-12), unless the recipient is a graduate student engaged in teaching or research.
- Typically, the employee and immediate family members use the benefit at the employee's own university, but the benefit is sometimes available to employees and/or their dependents who attend other universities. In these cases, universities cooperating in a tuition waiver program may be part of a public higher education system or a voluntary consortium.
- Not every university and college provides tuition remission as a benefit nor is every tuition remission benefit offered by institutions the same. Rather, each university or college sets its own tuition remission policy based on the employment market and its available resources. The benefit must be widely offered to university employees and cannot discriminate in favor of highly compensated employees.

## Who Benefits?

- Tuition remission is widely available and used in every type of university and college by employees in all occupation groups. Employees from all occupations – faculty, administrative staff, physical plant staff, security officers, and food service workers, to name a few – may receive tuition remission either for themselves and/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, 60 percent earn \$50,000 or less a year, and 35 percent earn \$25,000 or less a year.
- According to a 2008 survey conducted by CUPA-HR, 96 percent of all universities and colleges offer tuition remission for employees to take courses at their own institution, and 34 percent of institutions offer tuition remission for courses taken at another institution.
- Graduate student research and teaching assistants also benefit from Section 117 (d). The tuition remission they receive is not subject to taxation.

## **Why is It Important?**

- Section 117 (d) permits universities and colleges to offer tuition remission or greater amounts of tuition remission to their employees than they would otherwise be able to provide.
- Tuition remission provides critical assistance to employees who otherwise might not be able to afford undergraduate education for themselves or their families. The benefit is not limited to the highest paid employees or to high tuition colleges and universities. In fact, just as it is an important recruiting and retention tool for faculty, the tuition remission benefit also helps institutions to attract and retain administrative and physical plant staff by providing a valuable benefit and incentive for them and their families to further their education.
- Section 117 (d) tuition remission benefits help offset the lower compensation levels offered by universities and colleges relative to the private sector. For example, faculty members with a Ph.D., M.D., or J.D. can earn significantly more compensation in the private sector. Tuition remission helps universities and colleges attract and retain these bright and talented individuals who, in turn, serve the public interest through teaching and conducting research.

## **Additional Information**

- Joint Committee on Taxation Report, JCX-62-12, "Present Law and Background Relating to Tax Exemptions and Incentives for Higher Education" – <https://www.jct.gov/publications.html?func=startdown&id=4474>.