Qualified Tuition Reduction

Internal Revenue Code Section 117 (d)

What is a Qualified Tuition Reduction?

Section 117 (d) of the Internal Revenue Code allows nonprofit universities to give their employees, spouses, or dependents tuition reductions that are excluded from taxable income. This long-standing provision helps employees and members of their families afford a college education, providing an important benefit to many middle- and low-income college employees.

Importantly, Section 117(d)(5) significantly lowers the cost of graduate education by permitting universities to provide many graduate students with a non-taxable tuition reduction while serving as teaching or research assistants, a central component of their academic training.

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 nor 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, an employee and his or her 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.

Each university 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?

Employees and their Families

Tuition remission is widely available and used in every type of university by employees in all occupation groups.

Conservative estimates suggest more than 27,000 undergraduate students received an employee/employee family tuition reduction in 2011-12 (Tax Reform and Higher Education).

The majority of employees benefitting from the provision are low- and middle-income. 50 percent of employees receiving tuition reductions for themselves or family members earned $50,000 or less, and 78 percent earned $75,000 or less (CUPA-HR 2017 Salary Report).

Graduate Students

Graduate student research and teaching assistants rely heavily on Section 117 (d) to make their graduate educations possible. Currently, the tuition remission they receive is not subject to taxation. Eliminating this provision would increase graduate students' tax liability on "income" they never see.

About one out of four students (24.4 percent) pursuing doctoral degrees in 2011-12 received institutional tuition and fee waivers, the average amount being $12,645.90. In addition, 6.2 percent of Master's degree-seeking students received institutional tuition and fee waivers, the average amount being $6,510.80 in 2011-12 (CGS Tax Reform Examples).

60 percent of tuition reductions went to graduate students in STEM programs.

Source: Department of Education

Why is it Important?

Eliminating this benefit would particularly harm low- and middle-income employees who are poised to send their children to college and have made their career choices and college savings decisions based on the existing tuition benefits for their children.

Repeal of this provision would result in thousands of graduate students – particularly the future innovators training in STEM fields – being subjected to either a major tax increase or a significant increase in tuition as universities would be forced to curtail tuition reductions. Unfortunately, this likely would lead to increased student debt as many of these students, the vast majority of whom have very low incomes, would be forced to borrow to pay these taxes or their tuition bills.

In 2011-12, nearly 55 percent of all master's and Ph.D. students had adjusted gross incomes of $20,000 or less, and nearly 87 percent had adjusted gross incomes of $50,000 or less. During that same time period, master's degree students received an average of $10,949 and doctoral degree students received an average of $13,609 in tuition remission for serving as research and teaching assistants (Tax Reform and Higher Education).

2017 Tax Law Implications

While the 2017 House tax reform bill would have repealed the 117(d) exclusion, the provision was not included in the final version of the Tax Cuts and Jobs Act (TCJA).

Additional Information

Council of Graduate Schools Tax Reform Examples

Tuition Waivers and Remission

http://cgsnet.org/ckfinder/userfiles/files/CGS_Tax_Reform_Scenarios(1).pdf

Tax Reform and Higher Education

Section 117(d) Qualified Tuition Reduction

http://www.acenet.edu/news-room/Documents/Talking-Points-Sec-117-d.pdf

CUPA-HR 2017 Salary Report

2017 Staff in Higher Education Salary Report

https://www.cupahr.org/wp-content/uploads/2017/07/SHE17_Overview.pdf