

# TAX REFORM AND HIGHER EDUCATION

## What Students, Families, and Institutions Need to Know

### Talking Points: Section 117(d) Qualified Tuition Reduction

Internal Revenue Code Section 117(d) permits non-profit educational institutions, including colleges and universities, to provide their employees, spouses, or dependents with 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.

Additionally, Section 117(d)(5) significantly lowers the cost of graduate education by providing many Ph.D. and Masters graduate students with a non-taxable tuition reduction while serving as teaching or research assistants, a key component of their academic training. We ask that Congress preserve Section 117(d) in upcoming tax reform legislation.

#### Who Benefits from 117(d)?

- College and university employees, spouses, and their dependents:
  - A broad cross-section of our employees benefit from Section 117(d). Under the law, if an institution chooses to offer this benefit, then all employees must be able to receive it. As a result, the provision benefits a range of employees, including secretaries, other front-line administrative staff, maintenance and janitorial staff, and faculty. More than 27,000 undergraduate students received an employee/employee family tuition reduction in 2011-2012.
  - Indeed, the majority of employees benefitting from the provision are low- and middle-income. Fifty percent of employees receiving tuition reductions for themselves or family members earned \$50,000 or less, and 78% earned \$75,000 or less, according to a 2017 survey of nearly 300 institutions by the College and University Professional Association for Human Resources.
- Graduate students and university research:
  - The provision is very important to the research endeavor at major universities, particularly in the crucial STEM fields. According to data from the Department of Education, 57% of tuition reductions went to graduate students in STEM programs. Close to 145,000 graduate students received a tuition reduction in 2011-2012.
- Colleges and universities as an institution:
  - Section 117(d) also gives colleges and universities an important tool for recruiting and retaining valued employees, helping maintain the quality of education our schools can offer. It has been particularly important for many small, private, denominational schools to compete for top employees.

#### What Is at Stake if 117(d) Is Eliminated?

- Eliminating this benefit would particularly harm employees who are poised to send their children to college and have premised their career choices and college savings decisions on the existing tuition benefits for their children, hurting the lowest-paid college employees the most.
- Repeal of this provision would result in thousands of graduate students 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 would likely 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% of all Master's and Ph.D. students had adjusted gross incomes of \$20,000 or less, and nearly 87% had an adjusted gross income of \$50,000 or less. During that same time period, Master's degree students received an average of \$10,949 and Doctor's degree students received an average of \$13,609 in tuition remission for serving as research and teaching assistants.
- In addition to the enormous adverse effect on students, repeal would also negatively impact the cost of research at major universities across the country which rely to a great extent on the work of graduate students.