Tax Implications for Tuition Benefits for Graduate Assistants

Section 117(d) of the Internal Revenue Code addresses the taxability of tuition benefits offered to graduate assistants.

*Tuition reductions for graduate education are considered qualified and are excludable only if they are provided by an eligible educational institution to a graduate student performing **teaching or research** activities for the educational institution. The employee must include in income any other tuition reductions received for graduate education. (IRC Section 117(d)(5)(4))*

Section 127 of the Code addresses educational assistance benefits from your employer.

Gross income of an employee does not include amounts paid or expenses incurred by the employer for educational assistance to the employee if the assistance is furnished pursuant to a program which is described in subsection (b).

*If, but for this paragraph, this section would exclude from gross income more than $5,250 of educational assistance furnished to an individual during a calendar year, this section shall apply only to the first **$5,250** of such assistance so furnished.*

Graduate Research Assistants (GRAs) and Graduate Teaching Assistants (GTAs)

For those graduate assistants teaching or conducting research, tuition benefits are not taxable per Sec 117.

For example:

A graduate research assistant with a $1,000 stipend and $5,886 of tuition benefits, would have taxable gross earnings of $1000, which may not trigger withholding.

Graduate Support Assistants (GSAs)

Tuition benefits received by graduate support assistants are taxable over $5,250 in a calendar year per Sec 127. Graduate support assistants are those that are not involved with teaching or research. For those graduate assistants, any tuition benefits over $5,250 are added to their pay as a taxable benefit at the end of the semester. This will increase tax liability and possibly federal withholding. The tuition benefit does not increase net pay. Graduate support assistants should be prepared for the increase in tax liability and the possible decrease in net pay from additional withholding at the end of each semester. The tax withholding may result in a zero-paycheck depending on the value of the tuition benefits, the stipend received, and the W4 withholding allowances.

For example:

A graduate support assistant with $1,000 stipend may not trigger federal tax withholding. Taking three classes in the Spring semester may result in $5,886 of tuition benefits. In April, total taxable earnings would equal the $1,000 stipend plus $636 in tuition benefits (5,886 -5,250 exclusion). This may continue to not trigger any federal tax withholding. The graduate support assistant may still get the full $1000 of pay in April.

The next semester, having taken another three classes in the Fall, the $5,886 in tuition benefits would be fully taxable. The tuition allowance, along with the $1,000 stipend, would equal $6,886 in taxable earnings. The $6886 may result in $920 in federal tax withholding, depending upon their W4 withholding allowances. The resulting pay in October would be $80 ($1000-$920=$80).

Situations may differ depending on the number of classes taken and withholding allowances, but students should keep in mind the possible tax implications.