Republican Tax Proposal Gets Failing Grade From Higher-Ed Groups

By Eric Kelderman | November 02, 2017

WASHINGTON

Republicans in Congress released their proposed overhaul of the nation's tax laws on Thursday, including several measures that would place new tax burdens on colleges and students — and, critics said, could undermine charitable giving to higher education.

The bill was met with immediate opposition from a number of higher-education groups, which argued that the measure would rob institutions of vital dollars and increase the price of college for debt-laden students and already-strapped families.

"The House tax-reform proposal released today would discourage participation in postsecondary education, make college more expensive for those who do enroll, and undermine the financial stability of public and private two-year and four-year colleges and universities," said Ted Mitchell, president of the American Council on Education and under secretary of education in the Obama administration, in a written statement.

In broad terms, the bill would eliminate or consolidate a number of tax deductions meant to offset the costs of higher education for individuals and companies, including the Lifetime Learning Credit, which provides a tax deduction of up to $2,000 for tuition, a credit for student-loan interest, and a $5,250 corporate deduction for education-assistance plans.

The bill proposes new taxes on some private-college endowments and on compensation for the highest-paid employees at nonprofit organizations, including colleges and nonprofit academic hospitals. The plan would also tax the tuition waivers that many graduate students receive when they work as teaching assistants or researchers.

Perhaps most significant, the bill would result in many fewer people itemizing their deductions for charitable gifts. Higher-education experts warned that that change could lead to a steep decline in donations to colleges.

Richard D. Legon, president of the Association of Governing Boards of Universities and Colleges, said in a news release that Republicans in the House of Representatives had proposed extracting money from colleges and students in their "zeal to find offsets to fund cuts in the corporate and personal tax rates and eliminate the estate tax."

"'Simplifications' to current tax provisions that encourage saving and paying for college could cause great harm to the very families the legislation is purporting to help," Mr. Legon said.

Limited Effect

Two provisions in the legislation take aim at higher education’s most popular targets — endowments and executive compensation. But the bill’s details mean that relatively few institutions and administrators would see a tax increase.

Republicans proposed a 1.4-percent tax on the endowments of private colleges that enroll more than 500 students and that have nest eggs of more than $100,000 per student. The proposal would generate an estimated $3 billion over 10 years.

A *Chronicle* analysis found that the tax would apply to fewer than 150 colleges.

Still, while the number of institutions affected by such a measure would be small, the impact on how those colleges spend money could be large, said Brian Flahaven, senior director for advocacy at the Council for Advancement and Support of Education.

The tax on endowments is meant to increase spending from those reserves, but Mr. Flahaven said it would instead redirect the money away from its intended purpose to the federal coffers.

Similarly, the tax bill calls for a new tax on compensation of some highly paid employees of nonprofit organizations, including benefits such as housing and transportation, but not contributions for qualified-retirement plans.

Under the provision, a tax-exempt organization would be subject to a 20-percent excise tax on compensation in excess of $1 million paid to any of its five highest-paid employees. Lawmakers estimated that the measure would generate about $3.6 billion over a decade.

Again, the limits of the bill constrain the number of institutions that would be affected.

Fewer than 150 public and private colleges had an employee who earned more than $1 million, according to *The Chronicle*’s analysis.

Imposing a tax on employee benefits would put colleges at a disadvantage in competing with privately owned companies for the best employees, said Brian Pinheiro, an expert in executive compensation with the consulting firm Ballard Spahr.

"In the compensation world, this was a bit of a surprise," said Mr. Pinheiro.

**Bigger Problems**

The impact of taxing endowments and executive compensation, though, would pale in comparison to other provisions in the plan, said Steven Bloom, director of government relations for the American Council on Education.

Mr. Flahaven said that about 30 percent of tax filers are now able to itemize their charitable gifts to reduce their tax burdens. The Republican proposal would decrease that number to just 5 percent, according to figures cited by the National Council of Nonprofits, and would cause giving to fall by as much as $13 billion annually.

Middle-income students, too, would feel the impact of the House bill, which proposes eliminating the Hope Scholarship Tax Credit, worth up to $1,500, and the Lifetime Learning Credit. M. Peter McPherson, president of the Association of Public and Land-Grant Universities, said in a written statement that eliminating the Lifetime Learning Credit would cause particular harm to nontraditional students and graduate students. "The current tax code helps reduce the cost of college for good reason — not just because a college education benefits individuals, but because it benefits society at large," he said.

The bill would retain the American Opportunity Tax Credit, worth up to $2,500. The changes would increase government revenue by more than $17 billion over 10 years, according to Congressional estimates. The government would also save nearly $48 billion by eliminating deductions for interest on student loans and including things like employer-provided tuition reimbursement.

The latter would not only remove a benefit for some working students; it could also be a big loss for for-profit colleges, said Trace Urdan, a managing director at the investment firm Tyton Partners. Proprietary colleges rely on such money to meet the federal requirement that at least 10 percent of their revenue come from sources besides federal financial aid, he explained.

"This bill would increase the cost to students of attending college by more than $65 billion between 2018 and 2027," said Mr. Mitchell, the ACE president, in a written statement. "This is not in America’s national interest."
Eric Kelderman writes about money and accountability in higher education, including such areas as state policy, accreditation, and legal affairs. You can find him on Twitter @etkeld, or email him at eric.kelderman@chronicle.com.

Update (11/3/2017, 11:31 a.m.): This article has been updated with details on the potential impact of the tax-reform bill on the for-profit-college industry.

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Graduate Students & The “Tax Cuts and Jobs Act”: What You Need to Know

A Resource Guide

3 November 2017
Introduction

To those concerned about the future of graduate education in the United States,

Yesterday afternoon the House Republicans published their long awaited proposal to reshape the United States tax system. That draft, entitled the “Tax Cuts and Jobs Act,” is an attempt to reorient the American tax code. Among other things, it lowers the corporate tax rate to 20%. It reduces the State and Local Tax deduction. It eliminates the write-off for medical expenses. And it wipes away critical tax benefits that support graduate students. The SAGE Coalition and its constituent bodies oppose in all forms any attempt to increase graduate students’ tax burden.

Alarmingly, the “Tax Cuts and Jobs Act” eliminates section 117(d) from the IRS code. While this may seem innocuous, section 117(d) exempts tuition waivers from taxable income. At many schools waivers exceed stipends. Lifting the exemption has the potential to push graduate students into higher tax brackets. Taxing these waivers puts an undue burden on graduate students, especially because those funds never actually enters students’ bank accounts.

The “Tax Cuts and Jobs Act” also repeals section 127, which allows for tax free employer paid education assistance. Many graduate students can only afford to conduct their work because their employer provide funds. Terminating section 127 would reduce incentives for employers to seek continuing education for their employees, for the employees to pursue that education, and force thousands of graduate students nationally to choose between taking on perilous levels of debt or abandoning their education.

Furthermore, the “Tax Cuts and Jobs Act” strikes the Student Loan Interest Deduction from the code. Graduate students make up 14% of the student population in the United States, but carry 40% of the debt load. Terminating this deduction would strain the finances of individuals and families. Increasing the costs these individuals experience early on will reduce their ability to contribute positively to the nation’s economy in the future.

Additionally, the “Tax Cuts and Jobs Act” consolidates the American Opportunity Tax Credit with a five year limit. The tax bill also eliminates the Lifetime Learning Credit. Both of these are programs non-traditional students often rely on to ease the financial burdens of education. Removing them from the tax code will reduce education access.

What does all this mean for graduate students? If passed as it currently stands, the “Tax Cuts and Jobs Act” would be disastrous for both graduate students and higher education as a whole. The Student Advocates for Graduate Education (SAGE) Coalition, their partner organizations, universities, and their constituent graduate student governments are doing everything in their power to block these proposed changes to the tax code from taking effect. We, however, need your help.
Legislators need to hear from YOU about how these changes will impact your life. To aid in this effort, SAGE compiled the contents of this packet to assist those interested in opposing this bill. It contains a summary of the “Tax Cuts and Jobs Act’s” impact on graduate students, information on how to reach out to and share your opinion on the proposed legislation with legislators, a sample call script and email template, and a set of policy papers produced by SAGE, as well as the Council of Graduate Schools, on the current state of graduate finances and projections on how these changes could affect you.

The authors of the “Tax Cuts and Jobs Act” know the benefits of their bill. They are also aware of who will bear the costs. They are counting on the indifference of graduate students, their friends, families and allies to ease the bill’s passage into law. If passed, the “Tax Cuts and Jobs Act” will cost each graduate student thousands of dollars a year. SAGE has a day of action scheduled for 6 Nov., the day mark up on the bill begins. We hope you will join us in contacting legislators on that date.

Can’t call in then? No problem. Call and email early and often. Only a consistent stream of messaging will help defeat these dangerous changes to the tax code.

As always, we are a resource for you. If you have questions about how the passage of the “Tax Cuts and Jobs Act” or any other legislation will change the lives of graduate students, we are available via email at sagecoalition@gmail.com and on twitter @SAGECoalition. You can also find SAGE’s current and past legislative agendas at our website, sagecoalition.net.

Zachary S. Kopin
Chair
Student Advocates for Graduate Education

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What is SAGE?

Student Advocates for Graduate Education (SAGE) is a coalition of Graduate Student Organizations from leading U.S. public research universities who are committed to improving the quality of graduate student life at their own campuses, and promoting access, quality, and opportunity for graduate and professional students at the federal level.
Action Alert

Summary
This Action Alert requests that SAGE members and their institutions email or call their representatives in Congress starting on 6 Nov. to preserve tax credits that currently exist and benefit graduate students. Instructions on whom to contact and how to do so are provided along with sample communications.

Background
The Trump administration’s proposed framework aims to “retain benefits” relating to higher education, while also encouraging Congress to “simplify these benefits to improve their efficiency and effectiveness.” Many Congressional Republicans are supportive of this framework and this effort. Unfortunately, the simplification encouraged by the Trump administration is proving harmful for graduate students and graduate education, as evidenced by the proposed legislation.

The proposed tax reform legislation was released Thursday, November 2nd, 2017. Multiple tax credits that benefit graduate students are up for elimination. These credits include: Section 117(d), which makes tuition waivers for graduate students and children of professors at universities tax-free; the Lifetime Learning Credit; the American Opportunity Tax Credit; the FICA tax credit; and Section 127, which provides employer education assistance credits. More specific information on these suggested tax credit eliminations can be found here.

Congressional Republicans want the passage of this plan before or soon after Christmas, if not as soon as Thanksgiving. We have to act quickly and with close partners to compel Congress to maintain these beneficial credits. In addition to contacting Congress, we recommend contacting your graduate education dean. The Council of Graduate Schools and the American Council on Education are extremely supportive of this effort to preserve these credits. The more universities that speak out against reforms that eliminate these credits, the better the chances are to preserve them.
How to Help

This packet contains a template email for you to customize and send to your representatives using their contact forms; you can find your representatives’ contact information with our Contacting Congress webform. For your convenience, we also have included the contact information of some relevant legislators below:

1. Get your Zip+4 if you don’t have it (for email contact forms).
2. Find your representatives’ contact information.
3. Check if any of your representatives are on the budget conference committee, then edit email or call scripts accordingly.
4. Either…
   1. customize the sample email below and submit via the contact forms linked from your Contacting Congress results, or
   2. customize the relevant sample phone script below and call each of your representatives using the phone numbers listed in your Contacting Congress results.

It is crucial that you customize your message. According to the Congress Foundation’s 2011 study on how Congress members respond to communications, individualized messages and phone calls are about an order of magnitude more influential than form emails (see their fig. 2).

You may also wish to tweet to your representatives. Generally, members will have links on their websites if they are active on Twitter. When you tweet, we recommend you use the hashtags #XXXXXXXX to tie into existing campaigns by local coalitions and membership organizations with similar goals. Make sure you add @SAGECoalition to your tweets!

Remember legislators need to hear your stories. Anecdotes, not statistics, change minds.
Relevant Legislators

House Ways and Means Committee
Republicans (Majority)
- Rep. Kevin Brady (TX-8), House Ways and Means Committee, Chair
- Mike Bishop (MI-8)
- Sam Johnson (TX-3)
- Devin Nunes (CA-22)
- Pat Tiberi (OH-12)
- Dave Reichert (WA-8)
- Peter Roskam (IL-6)
- Erik Paulsen (MN-3)
- Kenny Marchant (TX-24)
- Tom Reed, II (NY-23)
- Jim Renacci, CPA (OH-16)
- Pat Meehan (PA-7)
- George Holding (NC-2)
- David Schweikert (AZ-6)

Democrats (Minority)
- Rep. Richard Neal (MA-1), House Ways and Means Committee, Ranking Member
- Sander Levin (MI-9)
- Lloyd Alton Dogget, II (TX-35)
- Mike Thompson (CA-5)
- Ron Kind (WI-3)
- Bill Pascrell, Jr. (NJ-9)
- Joe Crowley (NY-14)
- Danny Davis (IL-7)
- Linda Sanchez (CA-38)
- Brian Higgins (NY-26)
- Suzan DelBene (WA-1)
- Dr. Judy Chu, PhD (CA-27)

Senate Finance Committee
Republicans (Majority)
- Sen. Orrin Hatch (R-UT), Chair
- Sen. John Cornyn (R-TX)
- Sen. Richard Burr (R-NC)
- Sen. Rob Portman (R-OH)
- Sen. Patrick Toomey (R-PA)
Democrats (Minority)
  ● **Sen. Ron Wyden (D-OR), Ranking Member**
  ● Debbie Stabenow (D-MI)
  ● Maria Cantwell (D-WA)
  ● Robert Menendez (D-NJ)
  ● Sherrod Brown (D-OH)
  ● Robert Casey, Jr. (D-PA)
  ● Mark Warner (D-VA)

*Leadership and Other Relevant Legislators*

House Republicans (Majority)
  ● Rep. Paul Ryan (WI-1), Speaker of the House

House Democrats (Minority)
  ● Rep. Nancy Pelosi (CA-12), House Minority Leader

Senate Republicans (Majority)
  ● Sen. Mitch McConnell (R-KY), Senate Majority Leader

Senate Democrats (Minority)
  ● Sen. Chuck Schumer (D-NY), Senate Minority Leader
  ● Sen. Patty Murray (D-WA), Senate Assistant Minority Leader
Email Template

Draft SAGE Email to send to Representative
[EDIT BEFORE SENDING]

Dear Senator/Representative X,

My name is [YOUR NAME], and I am graduate/professional student at [Institution] in [City, State] and a constituent of [Sen/Rep. Congressperson]. I am contacting you in regard to the tax reform bill that was released on November 2nd, 2017. As a graduate/professional student, I am asking that you oppose this legislation because of the removal of Section 117(d) of the tax code and other tax credits that benefit graduate/professional students and education.

These tax credits offer additional financial assistance for graduate/professional students, who already face tuition rates significantly higher than undergraduate students. Additionally, because loan options for graduate/professional students are far more limited than for undergraduates and have higher interest rates, these tax credits allow graduate/professional students easing of financial burdens that we cannot easily avoid.

[Personalized story of how issue impacts you].

Removing these tax credits vastly increases the financial burden for graduate/professional education. Allowing these removals will discourage more graduate/professional students in the future at a time when so many jobs in our country require specialized training that is provided by these programs.

If you have any questions about the effects of tax credits on graduate/professional students or if I can be of any further help to you in the future, please do not hesitate to contact me. I am happy to help you in whatever way I can.

Thank you for your time.
Sincerely,

[Your name]
Phone Scripts

Below we have two sample call-in scripts. One is for main players: these are legislators on the relevant committees (see pg. 5-6). The other is for congress people who represent you. Both need to hear how these changes to the tax code will impact you.

Sample Phone Call to Main Player in Issue

STAFFER: Hello, Senator Murray's office, can I help you?

GRAD STUDENT: Yes, I would like to speak with a staffer responsible for higher education issues/tax policy.

STAFFER: OK, I will see if they are in right now. <pause> They can speak with you now [note; you may get voicemail, leave same message as the next bit of conversation]

SCI. STAFFER: Hello, I'm [staff name] and I'm responsible for higher education issues/tax policy... How can I help you?

GRAD STUDENT: Hi, my name is [YOUR NAME] and I am a graduate/professional student at [YOUR INSTITUTION], and a constituent of Senator Murray’s. I am calling to ask Senator Murray to oppose the tax reform legislation recently introduced.

As the legislation currently stands, tax credits that are beneficial to graduate/professional students and that ease our financial burden will be discontinued, forcing us to be subject to taxes that we cannot afford. In order to maintain the financial integrity of graduate/professional students and the affordability of our programs, I urge the Senator to oppose the removal of these tax credits in this legislation. Graduate/professional students cannot sustain these changes.

SCI. STAFFER: Thank you for your message, I'll let the Senator know your point of view.

GRAD STUDENT: Thank you so much. If I can ever be of help to Senator Murray, please let me know. I am happy to help however I can.
Sample Phone Call to Your Legislator:
STAFFER: Hello, Congressman Hurt’s office, can I help you?

GRAD STUDENT: Yes, I would like to speak with a staffer about higher education issues/tax policy.

STAFFER: OK, I will see if they are in right now. <pause> He can speak with you now [note; you may get voice mail, leave same message as the next bit of conversation]

SCI. STAFFER: Hello, I'm [staff name] and I'm responsible for [issue]... How can I help you?

GRAD STUDENT: Hi, my name is [YOUR NAME] and I am a graduate/professional student at [YOUR INSTITUTION], and a constituent of Senator Murray’s. I am calling to ask Senator Murray to oppose the tax reform legislation recently introduced.

As the legislation currently stands, tax credits that are beneficial to graduate/professional students and that ease our financial burden will be discontinued, forcing us to be subject to taxes that we cannot afford. In order to maintain the financial integrity of graduate/professional students and the affordability of our programs, I urge the Senator to oppose the removal of these tax credits in this legislation. Graduate/professional students cannot sustain these changes.

SCI. STAFFER: Thank you for your message, I'll let the Congressman know your point of view.

GRAD STUDENT: Thanks so much. If I can ever be of help to Congressman Hurt, please let me know. I am happy to help however I can.

Sample Tweets
.@pattymurray @SAGECoalition
.@RepRonBarber @SAGECoalition
Graduate students across the country are integral in building and advancing America’s future. They perform research on gene therapy and cure viral infections, train to become surgeons, discover the history of the Earth, and develop innovative technologies. Instead of encouraging students to pursue advanced degrees, inequities in the student loan system create disincentives to further education.

The Bureau of Labor Statistics predicts that about one million new jobs will require advanced degrees by 2022, yet the financial barriers of graduate education are too steep for many to climb. Federal support to assist graduate students and their families in mitigating the severe debt incurred by higher education will ensure graduate students enjoy financial stability while preparing for their careers and allow greater advancement in their work and research.

Reinstall Equitable Loan Access

As of 2014, the average student loan debt of graduate students is $57,600. This number varies greatly by the field. Doctoral degrees in psychology can result in debt upwards of $200,000. Though graduate and professional students make up just 14% of the total student population in higher education, they hold 40% of student debt.

The inequities in student debt funding exacerbate this problem. Graduate students are not eligible for subsidized Stafford loans and the graduate student loan interest rates are between 1.55% and 2.55%, higher than interest rates for undergraduate student loans. PLUS loan interest rates, which are only available for graduate and professional students, are at risk of increasing to 9.5% and 10.5%. The Congressional Budget Office projects these loan changes will generate revenue that is not reallocated back to graduate student education funding. This raise only increases the debt burden for graduate and professional students.

SAGE recommends:
- Restore subsidized Stafford loans for graduate and professional students
- Lower current and capped interest rates on Graduate Student PLUS loans

Support Repayment Options

As of 2012, roughly one in ten borrowers have over $150,000 in total student debt. Resources exist to ease this burden, though, such as the Income-Driven Repayment (IDR) program, the Pay As You Earn (PAYE) program, and the Revised Pay As You Earn (REPAYE) program. Despite higher interest rates, Graduate PLUS loans are often the only option for students to attend school. These programs are essential to helping ease the debt burden for graduate students and must be maintained.

SAGE recommends:
- Protect and promote the existence of loan repayment plans, including IDR, PAYE, and REPAYE
ISSUE BRIEF

Tax code reform is a high priority for the 115th Congress. Simplification is a worthy goal, however a number of changes that have been proposed to the tax code in the past could have a negative impact on how graduate students finance their education. These include proposals that would repeal the Lifetime Learning Credit and eliminate the deduction for interest paid on student loans. Coupled with congressional actions outside of tax reform that have been made over the last decade, these changes would require master’s and doctoral students to pay an even higher price for the education decisions and choices they make to acquire advanced knowledge and skills. This knowledge is becoming ever more necessary in an increasing number of high-demand fields and careers. To remain competitive in a global economy, the U.S. cannot afford to discourage talented individuals from pursuing graduate education.

So that students from diverse economic and demographic backgrounds have access to high quality, affordable graduate education, CGS recommends the following principles regarding Federal education tax policy:

Maintain access for graduate students to use education tax credits for qualified expenses related to tuition and fees.

Maintain or extend the Student Loan Interest Deduction (SLID) for interest paid on student loans, and for qualified tuition and related expenses.
  • Subsidized federal student loans are no longer available to graduate students. They either pay the interest on their loans immediately or allow the interest to accrue, which only increases their debt.
  • Graduate students pay higher interest rates for their loans. Removing the ability to deduct their interest payment and qualified tuition and related expenses only increases their debt.
  • With income based repayment strategies that extend repayment periods for graduate students, elimination of SLID only adds to their debt.

Retain section 117(d) in the tax code which excludes tuition waivers and remissions from overall tax burden.
  • About one out of four students (24.4%) pursuing doctoral degrees in the Academic Year 2011-12 received institutional tuition and fee waivers, the average amount being $12,645.90. In addition, 6.2% of Master’s degree seeking students also received institutional tuition and fee waivers, the average amount being $6,510.80 in the Academic Year 2011-12. Eliminating this provision would increase graduate students’ tax liability on “income” they never see.
  • Stipends or salaries earned for teaching assistantships or research assistantships would remain unaffected by the proposal.

Expand what constitutes employer provided tax-exempt educational assistance under the Internal Revenue Code Section 127, to include student loan repayment assistance.

Provide tax credit incentives for low- and moderate-income individuals to contribute to 529 education savings accounts, and allow for employer tax credits for matching these contributions.
Tax Reform Examples: Tuition Waivers and Remission and LLTC Changes

About one out of four students (24.4%) pursuing Doctor’s degree-research/scholarship in the Academic Year 2011-12 received institutional tuition and fee waivers with the average amount of $12,645.90. In addition, 6.2% of Master’s degree seeking students also received institutional tuition and fee waivers with the average amount of $6,510.80 in the Academic Year 2011-12. Eliminating this provision would increase tax liability for graduate students on “income” they never see.

Some hypothetical examples that illustrate the potential impact on tax liability for master’s and doctoral students:

- **Example #1** – Jane, a doctoral degree student at a private, not-for-profit institution had a $30,500 fellowship and was also credited with $18,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Jane’s tax liability would have been $24,550 and she would have paid $3,247.50 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Jane’s tax liability would increase to $43,050, despite the fact she would still take home the same amount of money, and she would have to pay $6,492.50 in federal income tax, or 21% of her fellowship.
    - Effectively, Jane’s federal income tax would increase by 100%, or $3,245.

- **Example #2** – Jose, a doctoral degree student at a public institution had a $14,500 fellowship and was also credited with $9,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Jose’s tax liability would have been $8,550 and he would have paid $847.50 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Jose’s tax liability would increase to $18,050, despite the fact he would still take home the same amount of money, and he would have to pay $2,272.50 in federal income tax, or 16% of his fellowship.
    - Effectively, Jose’s federal income tax would increase by 168%, or $1,425.

- **Example #3** – Mary, a master’s degree student at a public institution had a $7,000 stipend and was also credited with $6,500 as a tuition/fee waiver.
  - Under the current law:
    - In 2012, Mary’s tax liability would have been $1,050 and she would have paid $105 in federal income tax.
  - If tuition waivers are considered as taxable income and LLTC is not available:
    - Mary’s tax liability would increase to $7,550, despite the fact she would still take home the same amount of money, and she would have to pay $755 in federal income tax, or 11% of her stipend.
    - Effectively, Mary’s federal income tax would increase by 619%, or $650.

*NOTE: These examples are based on the 2012 tax rules with a standard deduction of $5,950, and assume that each individual filed as a single with no source of income other than the financial awards in the examples.*
How Does the “Tax Cuts and Jobs Act” Affect Ph.D. Students?

By: Vetri Velan, Ph.D. student in Physics at UC Berkeley
November 4, 2017
(Revised November 7, 2017: Fixed typo on standard deduction amount. Added extended health insurance costs to MIT calculations. Added section “Effects on Other Students.” Original here)
Legal disclaimer: This work is my own, and I am not a tax expert.

Summary

On Thursday, November 2, 2017, House Ways and Means Committee Chairman Kevin Brady (R-TX) introduced the Tax Cuts and Jobs Act[1]. One of this bill’s provisions is the repeal of the deduction for qualified tuition and related expenses. Most Ph.D. programs in the United States, particularly in STEM disciplines, offer tuition remission to their students in exchange for either a teaching appointment (TA) or a research assistantship (RA). As a result, this provision would specifically target these students and increase their tax burdens. In this document, we examine the exact costs of the House tax plan on Ph.D. students. We find that this provision is significant at both public and private institutions, but it is much stronger at private institutions due to their higher tuitions. We estimate the federal income tax for a TA at UC Berkeley, an RA at UC Berkeley, and an RA at MIT; we find that the Tax Cuts and Jobs Act will respectively increase their tax burdens from $2,229 to $3,641 (61% increase), $3,590 to $4,730 (31% increase), and $3,993 to $13,577 (240% increase). We further estimate the federal income tax for a UC Berkeley student on fellowship, which would likely decrease from $3,719 to $3,156 (15% decrease). We briefly discuss how out-of-state students, international students, and students with families might be affected.

The Tax Cut and Jobs Act

The Tax Cut and Jobs Act[2][3] (TCJA) makes four major changes to the tax code that are relevant to this analysis.

First, it changes federal income tax brackets. The current brackets[4] for a single filer are below on the left, and the proposed brackets[5] are on the right:

<table>
<thead>
<tr>
<th>Current Brackets</th>
<th>Proposed Brackets</th>
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<tbody>
<tr>
<td>10% for $0 to $9,325</td>
<td>12% for $0 to $45,000</td>
</tr>
<tr>
<td>15% for $9,325 to $37,950</td>
<td>25% for $45,000 to $200,000</td>
</tr>
<tr>
<td>25% for $37,950 to $91,900</td>
<td>35% for $200,000 to $500,000</td>
</tr>
<tr>
<td>28% for $91,900 to $191,650</td>
<td>39.6% for $500,000+</td>
</tr>
<tr>
<td>33% for $191,650 to $416,700</td>
<td></td>
</tr>
<tr>
<td>35% for $416,700 to $418,400</td>
<td></td>
</tr>
<tr>
<td>39.6% for $418,400+</td>
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</tbody>
</table>
Second, it increases the standard deduction. For a single filer in 2017, this increases from $6,350 to $12,000[3].

Third, it eliminates the personal exemption, which is $4,050 for 2017[3].

Fourth, it eliminates the deduction for qualified tuition and related expenses. To quote directly from the Tax Cuts and Jobs Act Summary[3]: “Under current law, qualified tuition reductions provided by educational institutions to their employees, spouses, or dependents are excluded from income. The exclusion may be provided in the form of either reduced tuition or cash. The reduction must be part of a program that does not discriminate in favor of highly compensated employees and may not apply to graduate programs (except for a graduate student who is teaching or a research assistant) … Under the provision, the deduction for interest on education loans and the deduction for qualified tuition and related expenses would be repealed. The exclusion for interest on United States savings bonds used to pay qualified higher education expenses, the exclusion for qualified tuition reduction programs, and the exclusion for employer-provided education assistance programs would also be repealed.” Or, equivalently, the bill’s text[2] strikes U.S. Code Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 107(d)[5].

Effects on UC Berkeley

Here, we analyze the effects of the bill on a typical UC Berkeley Ph.D. student, and we calculate their tax burden under both current law and the proposed bill. At UC Berkeley, most students will be funded by positions as teaching assistants (TA) or research assistants (RA). These positions generally provide waivers for in-state tuition and the University-run health insurance program, as well as a monthly salary. According to current law, federal income tax must be paid on the salary and the health insurance waiver, but not on the mandatory tuition and fees[6]. The TCJA would require Ph.D. students to pay federal income tax on all these benefits.

First, we consider a student who is a TA for all twelve months in 2017. A “standard” TA appointment is usually 20 hrs/week, or 50% of full-time employment, and is most commonly at the Step 1 salary rate. We use the contractually-obligated rates[7] to determine that this student will earn $24,241 of income in 2017. In addition, she will get health insurance through the UC Berkeley SHIP program, which costs $2,073 for Spring/Summer 2017[8] and $2,231 for Fall 2017[9]. She will also get a waiver for in-state tuition, which costs $6,759 for Spring 2017[10] and $7,034 for Fall 2017[11]. With this information and the appropriate deductions and tax brackets, we can calculate her 2017 tax burden. We find that her federal income tax would be $2,229 under current law, and $3,641 under the TCJA, or a 61% increase. Please see the end of this document for a more detailed derivation of this result.
Second, we consider a student who is an RA for all twelve months in 2017. At UC Berkeley, RA appointments can vary by department, but a “standard” appointment in science departments, like Physics and Chemistry, is roughly on par with 48% of full-time employment at the Step 9 salary rate[12]. Thus, we estimate that her 2017 income will be $33,317. The tuition and health insurance benefits listed in the previous paragraph apply here, as well, so we can again calculate her federal income tax. We find that her federal income tax would be $3,590 under current law, and $4,730 under the TCJA, or a 31% increase.

Effects on MIT

Here, we estimate the effect of the TCJA on the tax burden of an MIT student, primarily to note the increased burden on students at private institutions, where tuitions are much higher. MIT has a similar structure to Berkeley; at both schools, a Ph.D. student gets a salary and tuition remission. At MIT, however, the health insurance system is set up differently. The cost of tuition includes the standard MIT Student Medical Plan, but not the MIT Student Extended Insurance Plan (SEIP), which is required to be in accordance for the Affordable Care Act[13,16]. RA appointments at MIT do generally include the extended plan[17], and the cost of the SEIP is included as taxable income under both current law and the TCJA. Furthermore, for simplicity, we assume that the salary and tuition over the year are fixed at the Fall 2017 rates.

An MIT Ph.D. student who is an RA for all twelve months in 2017 will get a salary of approximately $37,128[14], and a health insurance plan valued at $3,000[13]. The cost of a year of tuition at MIT is about $49,580[15]. With these figures, we can estimate the student’s 2017 tax burden. We find that her federal income tax would be $3,993 under current law, and $13,577 under the TCJA, or a 240% increase. We also note that her tax burden is about 37% of her salary.

Effects on Other Students

Not all students fall neatly into the categories listed above of TAs and RAs. Some are on fellowships, like the National Science Foundation Graduate Research Fellowship Program (GRFP), in which case they get a stipend as an award for excellence in their studies, rather than directly for a TA/RA job. Many are out-of-state or international students at public universities, in which case tuition RA costs are higher. Some students are married or have children. This section is meant to explore how the TCJA might affect them.

Here, we consider a UC Berkeley student who is on a fellowship, namely the GRFP. This program provides three years of a $34,000 annual stipend and a $12,000 cost-of-education allowance for tuition and fees, paid to the institution directly. Since $12,000 is not enough to cover tuition, fees, and health insurance at UC Berkeley, most departments will make up the
difference for their students. Current tax law\textsuperscript{[5]} distinguishes between two categories of tuition deductions: “qualified scholarships” and “qualified tuition reductions.” The former is defined as “any amount received by an individual as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the conditions of the grant, such amount was used for qualified tuition and related expenses.” We believe that the GRFP, as well as any extra stipend that departments pay to cover the entire cost of attendance, would fall into this category under both current law and the TCJA. The latter category is defined as “the amount of any reduction in tuition provided to an employee of an organization described in section 170(b)(1)(A)(ii) for the education (below the graduate level) at such organization…”, and that “In the case of the education of an individual who is a graduate student at an educational organization described in section 170(b)(1)(A)(ii) and who is engaged in teaching or research activities for such organization, paragraph (2) shall be applied as if it did not contain the phrase ‘(below the graduate level)’.” This does not seem to apply to the GRFP.

With this assumption, the TCJA would not affect whether tuition is treated as taxable income, because the TCJA only removes qualified tuition reductions\textsuperscript{[2]}. So, a student on fellowship would be able to continue treating her stipend as taxable, her health insurance costs as taxable, and her tuition waiver as non-taxable. Then, we can calculate her 2017 tax burden using a $34,000 annual stipend, and the same costs for tuition and insurance we described above. We find that her federal income tax would be $3,719 under current law, and $3,156 under the TCJA, or a 15\% decrease. Note that this number will not change much by institution, because it only depends on health insurance costs, which vary less than tuition.

It is worth discussing the TCJA’s effect on out-of-state and international students, but it is hard to do so. At most public institutions, out-of-state students (i.e. non-Californians at a UC school) will pay a substantially higher tuition. At UC Berkeley, this amounts to an extra $15,102\textsuperscript{[10,11]} in 2017. Most departments will pay the difference for their out-of-state students who are TAs/RAs, but the question arises, does this count as taxable income? An equivalent question is, does this extra stipend count as a qualified scholarship given by the department, or is it a qualified tuition reduction granted for TA/RA work? The answer is unclear. If it is a qualified scholarship, then out-of-state students will not be affected any differently than in-state students by the TCJA; if it is a qualified tuition reduction, then the extra tuition will count as taxable income. If we assume the latter, then we find that an out-of-state TA would pay an extra $1,869 in taxes relative to her in-state colleague, and an out-of-state RA would pay an extra $3,049.

For international students, the situation is even more complicated. First, the tuition is generally higher for them than for domestic students, both in-state and out-of-state. For example, at UC Berkeley, the cost of tuition is $4,564 higher for the 2017-18 year for international students than for out-of-state students\textsuperscript{[11,18]}. In addition, most international students are not eligible for the standard deduction\textsuperscript{[19]}. They are usually eligible for one personal exemption\textsuperscript{[19]}, but this is being eliminated by the TCJA in exchange for a higher standard deduction. The most complicated feature, however, is that many nations have treaties with the United States, creating special rules for how their citizens are taxed when working here. Each nation would need to be treated
separately. As a result, doing a detailed calculation for how the TCJA affects international students would be beyond the scope of this work.

Finally, it is worth mentioning that this entire work has been for single filers. The TCJA makes many modifications to tax law for families, including different tax brackets, new tax rates, elimination of the personal exemption, and changes to the child tax credit. Graduate students who are married or have children will undoubtedly be affected in different ways than single filers. Unfortunately, that analysis is also beyond the scope of this paper.

**Conclusions**

It is clear that the TCJA’s provision to repeal the deduction for qualified tuition and related expenses would have a negative impact on most Ph.D. students by increasing their federal income tax burden. The effects of a larger standard deduction and lower rates above $9,325 are outweighed by the effect of adding tuition remission as taxable income. Higher tuitions naturally lead to steeper increases; when we compare UC Berkeley to MIT, we see that the tax increase is disparate by nearly an order of magnitude.

National research universities (i.e. Ph.D.-granting institutions) tend to have similar tuition costs and stipends, so we can use UC Berkeley and MIT as models for many public and private universities. This equivalence is, of course, not perfect because there is variance between institutions. Nevertheless, we see strong evidence that a Ph.D. student at a public university would see their taxes go up by 30-60%, and a student at a private university would see their taxes increase by a factor of 2-4.
References

[7] https://hr.berkeley.edu/labor/contracts/BX/current-rates
[9] https://uhs.berkeley.edu/insurance/ship-fees-enrollment
[18] https://internationaloffice.berkeley.edu/students/current/expenses
# Appendix: Detailed Calculations

**UC Berkeley (TA)**

- **Annual Income:** $24,241
- **Health Insurance Waiver:** $4,304
- **Tuition Waiver:** $13,793

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**UC Berkeley (RA)**

- **Annual Income:** $33,317
- **Health Insurance Waiver:** $4,304
- **Tuition Waiver:** $13,793

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<td><strong>Tax:</strong></td>
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**MIT (RA)**

- **Annual Income:** $37,128
- **Health Insurance Waiver:** $3,000
- **Tuition Waiver:** $49,580

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<td><strong>Tax:</strong></td>
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<td>$13,577</td>
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UC Berkeley (GRFP)

Annual Income: $34,000
Health Insurance Waiver: $4,304
Tuition Waiver: $13,793

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UC Berkeley (TA, out-of-state)

Annual Income: $24,241
Health Insurance Waiver: $4,304
Tuition Waiver: $28,895

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<td>Taxable Income:</td>
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UC Berkeley (RA, out-of-state)

Annual Income: $33,317
Health Insurance Waiver: $4,304
Tuition Waiver: $28,895

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<td>Taxable Income:</td>
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<td>$3,617</td>
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## Top student concern: Finances

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<th>Percentage</th>
<th>Description</th>
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<tr>
<td>55%</td>
<td>Percent of students reporting that their financial situation negatively impacts their well-being</td>
</tr>
<tr>
<td>37%</td>
<td>Percent of on campus students reporting they did not earn enough money to pay rent and live comfortably</td>
</tr>
<tr>
<td>42%</td>
<td>Average percent of wages spent on rent (federally recognized rate for affordable housing is 30%)</td>
</tr>
</tbody>
</table>

## Housing: Generally positive

- On-campus students generally satisfied with Housing Services (70%), but off-campus student are not (28%)

## Top on-campus housing concerns:

- **Parking**
- **Affordability**
Career Paths: Academia and Industry

- 25% Prefer an academic career
- 37% Considering both academic and non-academic careers equally
- 36% Prefer a non-academic career

Health and Well-Being

Top 3 student concerns for both Student Health Center and Counseling Center:

1. Referral Process
2. Appt. Wait Times
3. Ongoing Care

% of students reporting racial/ethnic stress varies by racial identity:

- Black, non-Hispanic: 52%
- Hispanic: 33%
- International: 19%
- Asian/Pacific Islander: 18%
- Native American: 11%
- White, non-Hispanic: 4%

SOURCE: AGS 2014-2015 Graduate Student Life Survey sent out to all graduate students. A total of 1,058 students completed the survey. Contact vpinternal@ags.uci.edu for additional information.