

TAX REFORM AND HIGHER EDUCATION

WHAT STUDENTS, FAMILIES, AND INSTITUTIONS NEED TO KNOW

Talking Points: Section 117(d) Qualified Tuition Reduction

Qualified tuition reductions allow colleges and universities to provide tax-free tuition reductions to employees, spouses, or dependents for undergraduate programs, as well as to graduate students engaged in teaching or research.

- Section 117(d) of the Internal Revenue Code allows nonprofit educational institutions, including colleges and universities, to provide employees and their spouses or dependents tuition reductions that are excluded from taxable income.
 - A qualified tuition reduction—often called tuition remission, a tuition waiver, or a tuition grant—is a tax-free award to eligible recipients that pays for some amount of tuition.
 - An institution’s Section 117(d) tuition benefits must be widely offered to employees and must not disproportionately favor highly compensated employees.
- Section 117(d)(5) significantly lowers the cost of graduate education by providing many graduate students with a nontaxable tuition reduction while they serve as teaching or research assistants—a key component of their academic training.
 - While most qualified tuition reductions must be for programs “below the graduate level,” Section 117(d)(5) allows qualified reductions for graduate students “engaged in teaching or research activities.”

Section 117(d) helps employees and members of their families afford a college education, providing an important benefit to many middle- and low-income college employees.

- A diverse range of college 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.
- Almost 70,000 undergraduate students received a qualified tuition reduction in 2019–20, more than double the number of students who had received it eight years earlier.¹
- About 61 percent of undergraduate students who benefit from Section 117(d) are from families with incomes below \$75,000.

Section 117(d)(5) supports graduate students, bolsters graduate education, and advances American research.

- Approximately 80,000 graduate students received both a graduate assistantship and a tuition waiver in 2019–20, a 20 percent increase since 2015–16. In total, about 300,000 graduate

¹ All data in this brief is from Margaux Cameron, T. Austin Lacy, Peter Siegel, Joanna Wu, Ashley Wilson, Ruby Johnson, Rachel Burns, and Jennifer Wine, *2019–20 National Postsecondary Student Aid Study* (National Center for Education Statistics, 2021), <https://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2021456>.

students received some form of tuition waiver, significantly reducing or eliminating their need to take out student loans.²

- Section 117(d)(5) is a vital tool that helps institutions support research, particularly in critical science, technology, engineering, and mathematics (STEM) fields. About two-thirds of the students that received both a graduate assistantship and a tuition waiver in 2019–20 were in STEM programs.
- Section 117(d)(5) helps fund research that addresses pressing global challenges, strengthens the United States, and cultivates a highly educated workforce equipped for the future.

Section 117(d) is a critical tool that advances students, institutions, and our society more broadly, and Congress should preserve it.

- Section 117(d) offers a crucial benefit to college employees—particularly those with low to middle incomes—helping them and their families afford a postsecondary education.
- Eliminating this benefit would particularly impact employees preparing to send their children to college, many of whom have built their career and financial planning around these tuition benefits—harming the lowest-paid employees the most.
- Section 117(d)(5) is a valuable tool for recruiting and retaining graduate students and boosting academic research. Losing this benefit would force more graduate students to rely on student loans and increase the cost of research at universities, which depend heavily on graduate student contributions.
- Section 117(d) also helps colleges and universities recruit and retain valued employees, preserving the quality of education our institutions can provide.

² It is unclear how many students qualified for 117(d)(5).