



# Tax Incentives for Graduate-Professional Student Education

## PROPOSAL

- Support legislation that would fully or partially return graduate scholarships (and/or stipends) to their former federal tax-exempt status.
- Support tax-incentives for graduate and professional degree students

## BENEFITS TO THE NATION

- Meet demands of growing sectors in economy requiring increasing number of highly-trained professionals (e.g. aerospace, biotechnology, energy, geospatial technology)
  - See <http://www.doleta.gov/business/PDF/1%20-%20HGJTI%20overview.pdf>
- Low-cost, high-benefit incentive for higher education, science, research, and technology
- Educate the next generation of post-secondary (undergraduate) students
  - *We expect larger graduation rates amongst undergraduates as a result of The American Graduation Initiative.*  
[http://www.whitehouse.gov/the\\_press\\_office/Excerpts-of-the-Presidents-remarks-in-Warren-Michigan-and-fact-sheet-on-the-American-Graduation-Initiative/](http://www.whitehouse.gov/the_press_office/Excerpts-of-the-Presidents-remarks-in-Warren-Michigan-and-fact-sheet-on-the-American-Graduation-Initiative/)
- More research can be conducted per dollar for private foundations and all the various federal programs (fellowships and research grants)
  - *These monetary sources pay for graduate students*

## BENEFITS TO THE UNIVERSITIES

- Higher scholastic output
  - *Grad school has a larger pool of applicants from which to choose.*
- Ability to support more graduate students
  - *Get more mileage out of cost-of-living allowance*

## RELATED FACTS

- Graduate students lose approximately \$100-200 a month from their stipends to federal income tax. (Source: NAGPS)
- Graduate students accumulate on average \$40,000 in graduate and undergraduate debt. These debts are well above the level considered unduly burdensome, and represent a major threat to the future of the American scientific and creative workforce. (Sources: US Dept of Education, Nellie Mae)
- Expansion of academic research is necessary for economic development. (Sources: Obama administration)

- **The proposal sends the message that higher education is a priority for the federal government, thus driving more students into post-baccalaureate study and future contributions to the economy.**
- **The proposal supports current congressional and executive initiatives and ideals for economic reinvestment and higher education.**
- A large portion of scholarship money comes from federal grants and programs. Funding agencies by taxing the awards those agencies grant is inefficient. (Source: National Science Foundation)
- Stipends received by graduate students are **NOT** wages
  - *Stipend amount is not based on quality or quantity of work*
  - *Stipend increases are not based on quality or quantity of work*
- Existing federal programs such as the NSF Fellowships and National Health Service Corps would be able to support more students and better fulfill their missions.
- Student debt has been identified by both our national organizations and Federal agencies as a serious problem, and yet under the current system, many students must take out further loans to meet their financial obligations. (Sources: ED, NSF, NAGPS, AAMC, and many others)
- Though next-generation of undergraduate higher education has been identified as a priority in The Student Aid and Fiscal Responsibility Act of 2009 (H.R. 3221), the aid required to train the future teachers of the next generation – graduate and professional students – has been omitted.

**POLICY HISTORY**

- Graduate student stipends were fully tax-exempt prior to 1986.
- Room and board expenses (the principal use of stipends) are considered tax-exempt educational expenses when drawn from state tuition savings accounts (26 USC 529).
- Room, board, transportation, computer purchases, and similar expenditures are considered part of the “cost of attendance” at a university (Higher Education Act, 20 USC 1087LL).

**FISCAL IMPACT**

- The fiscal impact of changing this policy would be insignificant since there are fewer than 500,000 students who would be affected.
  - *Would only affect students that receive stipends. This is primarily PhD students.*
- A student who earns a doctorate will pay over \$150,000 more in federal income tax over a lifetime than would a student with a bachelor’s degree, recouping the government’s investment. (Ernst & Young)

**Estimates for figure A: Percentage distribution of graduate and first-professional students by type of degree program and attendance pattern:**

	Total	Full-time, full-year	Less than full-time, full year
--	-------	----------------------	--------------------------------

Degree program			
Master's degree	60.0	13.0	47.0
Doctoral degree	14.0	7.0	7.0
First-professional degree	12.0	10.0	2.0
Other graduate program <sup>1</sup>	14.0	3.0	11.0

<sup>1</sup>"Other" includes students taking graduate courses without being enrolled in a specific degree or certificate program and students enrolled in a post-baccalaureate or post-master's certificate program.

NOTE: Detail may not sum to totals because of rounding.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 2003–04 National Postsecondary Student Aid Study (NPSAS:04).