

Tax Information for Graduate Students

Bill Fleming

Rich Wagman

PricewaterhouseCoopers LLP



Fellowship Stipends

- Fellowship stipends received by a degree candidate and used for qualified expenses are generally excluded from income
- Qualified expenses include tuition and enrollment fees, books, supplies and equipment (must be required for all students) that are required for your course work
- Qualified expenses do not include room and board and other expenses such as travel
- MIT will not provide any tax form
- You are responsible to report as taxable income (federal and state) the amount of a fellowship not used for qualified expenses
- Consider estimated tax payments

Taxable Fellowships

- Payment for services – TA and RA Assistantships
 - Payments received for past, present or future services such as teaching, research or other services will generally be taxable
- MIT will issue a Form W-2 and withhold based on the Form W-4 on file (federal and state)

Tax Reporting

- If the only funds received are nontaxable, no tax return is required
- If all or part of the funds received are taxable, report the taxable amount as follows:
 - Form 1040
 - Report the taxable amount on line 7
 - If amount not reported on a Form W-2, enter “SCH” and the taxable amount on the dotted line next to line 7
 - If paid as an independent contractor, report amounts on Schedule SE (Self-Employment) of Form 1040 and pay SE tax if net earnings are \$400 or more

Lifetime Learning Credit

- A nonrefundable tax credit of 20% of up to \$10,000 of qualified tuition and fees – credit cannot exceed \$2,000 per return
- Only credit for graduate students
- AGI phase outs
 - \$104,000 to \$124,000 married filing joint
 - \$52,000 to \$62,000 for others
- Must be for qualified expenses
- Must reduce for tax free parts of fellowships

Student Loans – Interest Deduction

- Taxpayers are allowed to deduct up to \$2,500 per year of interest paid on qualified education loans
- Loan must have been taken out solely to pay qualified education expenses
- Cannot be from a related person
- Ability to deduct phases out between \$60,000 and \$75,000 of AGI (\$125,000 and \$155,000 married filing joint)

Filing Options

- Software such as TurboTax (free online version for basic returns)
- IRS Volunteer Income Tax Assistance (“VITA”) program
- <http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>

Fellowship Stipends

- Fellowship stipends are subject to federal and state income taxes except for amounts spent on “qualified” expenses. Portions of stipends used for personal items such as clothes, food, rent, etc. are subject to federal and state income taxes.
- Qualified expenses are expenses such as tuition, books, fees, or other items specifically required by MIT in order to complete a degree.
- Fellows do not need to fill out the tax withholding forms on SAPweb Employee Self Service. However, Fellows should fill out their direct deposit information, so that their stipend is deposited directly in their bank account on payday:
http://web.mit.edu/sapwebss/PS1/money_home.shtml ^{Note 1}
- Please see “For Further Assistance” below for where to find information on qualified expenses, estimated tax, etc.

For U.S. citizens and permanent residents

- Tax regulations do not allow MIT to withhold federal and Massachusetts income taxes from the Fellowship stipend.
- Therefore, if the student Fellow deems the stipend will be spent on non-qualified expenses, the student should consider making estimated federal and state payments to the IRS and the state.
- You will not receive any tax form from MIT

For international students

- Federal income tax is withheld from Fellowship stipends at a flat rate depending on the student’s visa type (14% for students with an F-1 or J-1 visa, 30% for all other.)
- State tax is not withheld and it is the student’s responsibility to determine their state income tax liability and make estimated tax payments to the state, if necessary.
- You will receive tax form 1042S from MIT.
- Student Fellows may be eligible for a federal tax exemption if the student’s home country has a tax treaty with the U.S. Please see “Tax Treaties,” below.

TA and RA Assistantships

- Research assistant and teaching assistant payments are subject to federal and state income taxes and MIT is required to withhold federal and Massachusetts income taxes from assistantship payments,
- Therefore, assistants must submit the necessary federal and Massachusetts tax withholding forms on-line so that HR/Payroll receives your withholding information. From http://web.mit.edu/sapwebss/PS1/money_home.shtml ^{Note 1}, please select Tax Withholding.
- It is important for assistants to fill out withholding forms by HR/Payroll's Monthly Employment Transactions cutoff date for the month before their first assistantship payment, if possible. The monthly schedule is published at: http://vpf.mit.edu/site/calendar_schedules/schedules/payroll_monthly_closing
- If HR/Payroll does not receive withholding forms before the cutoff date, the tax withholding rate for that month's payment could be higher than if the assistant had submitted the forms. HR/Payroll cannot adjust tax withholding for prior months' payments retroactively.
- Assistants should also fill out their direct deposit information. Please select Direct Deposit, just below Tax Withholding.

For U.S. citizens and permanent residents

- Assistants will receive tax form W-2 from MIT

For international students

- Student research and teaching assistants may be eligible for a federal and state tax exemption if the student's home country has a tax treaty with the U.S. Please see "Tax Treaties," below.
- Assistants with a tax treaty will receive tax form 1042S from MIT. Students without tax treaties or with tax treaties whose assistantship payments exceed the tax treaty exemption limit will receive a W-2 tax form.

Please note that MIT can only provide general information and cannot provide you with specific information about your individual tax situation.

Worksheet 1-1. Taxable Scholarship and Fellowship Income

Keep for Your Records



1. Enter the total amount of any scholarship or fellowship for 2012. See *Amount of Scholarship or Fellowship*, earlier. 1. _____
 - If you are a degree candidate at an eligible educational institution, go to line 2.
 - If you are **not** a degree candidate at an eligible educational institution, **stop here**. The entire amount is **taxable**. For information on how to report this amount on your tax return, see [*Reporting Scholarships and Fellowships*](#), later, in this chapter.
2. Enter the amount from line 1 that was for teaching, research, or any other services required as a condition for receiving the scholarship. (Do not include amounts received for these items under the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.) 2. _____
3. Subtract line 2 from line 1 3. _____
4. Enter the amount from line 3 that your scholarship or fellowship **required** you to use for other than qualified education expenses 4. _____
5. Subtract line 4 from line 3 5. _____
6. Enter the amount of your qualified education expenses 6. _____
7. Enter the smaller of line 5 or line 6. This amount is the most you can exclude from your gross income (the tax-free part of the scholarship or fellowship) 7. _____
8. Subtract line 7 from line 5 8. _____
9. **Taxable part.** Add lines 2, 4, and 8. See [*Reporting Scholarships and Fellowships*](#), later, for how to report this amount on your tax return 9. _____

Thank you

This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties.

