

National Coalition for an Affordable and Accessible Graduate Education

Tax Exemption Proposal Background Paper

Existing Law – 26 USC 117(2)(A)(B)(c) – Attachment 1

Current law states that any qualified scholarship received by a student who is a candidate for a degree at an educational institution, as defined, is not considered gross income for purposes of federal tax withholdings.

The statute also further defines “qualified scholarship” as any amount received by a student as a scholarship or fellowship grant as long as the student can establish that the grant was used towards “qualified tuition and related expenses” as defined.

Finally, the statute places a limitation that this exemption will not apply to any amount received by the student as a form of payment for teaching and/or research as a condition of the grant.

Proposed Changes – Attachment 2

Proposed changes would remove existing language related to qualified tuition and expenses and replace it with the definition found in 20 USC 1087LL. This new language allows the exemption to apply to the entire scholarship amount that is used for “cost of attendance” expenses (including books, supplies, a personal computer, and room and board).

By providing the tax-exemption proposed to stipends, students will have on average an additional \$100-200 a month to use towards their living expenses.

American Competitiveness in the 21st Century

The economy of the United States is increasingly dependant on discovery in science and technology. However, over the years, there has been under-investing in graduate education, the key training for the people who create those discoveries. The nation is falling behind – failing to meet the workforce needs for managerial and professional workers and not adequately preparing to meet the scientific, educational or cultural needs of the decade ahead.

Currently, the United States is falling dramatically behind in developing new domestic talent in a number of important disciplines, particularly in the sciences and engineering fields. In 1997, the U.S. granted engineering degrees to 63,000 individuals, compared to 148,000 in China. The U.S. ranks 14th in the number of bachelor’s degrees awarded in the natural sciences and engineering - down from its third place ranking in 1975. According to the National Commission on Mathematics and Science Teaching for the 21 Century, the U.S. will have to produce significantly more scientists and engineers, including four times the current number of computer scientists to meet anticipated demand. Seven months before the tragic events of September 11, 2001, the U.S. Commission on National Security/21st Century (chaired by former Senators Gary Hart and Warren Rudman) concluded that the U.S. demand for domestic human capital in

science, mathematics, and engineering was not being met. The Commission report states: "Second only to a weapon of mass destruction detonating in an American city, we can think of nothing more dangerous than a failure to manage properly science, technology, and education for the common good over the next quarter century."

Trained high-tech engineers and personnel are in such demand that Congress proposed and former President Clinton signed the "American Competitiveness in the 21st Century Act." This act allows high-tech companies to bring foreign employees into the country in order to meet the demand that the American workforce cannot provide.

While this discussion has focused on the need for scientific and engineering talent, we must also point out that graduate training in the humanities provides a vital national service. Students of languages, history, and arts provide us with a window into the minds of other countries and cultures. In an era when international engagement has become unavoidable and the US stands as the world's sole superpower, this understanding of our global neighbors is essential to ensure successful foreign policy and strengthen our national security.

Under-Investing in Graduate Education

A recent article in the Chronicle of Higher Education reported that the nation is facing a significant decline in graduate and professional school enrollment - especially among underrepresented populations. This decline is affecting the nation's ability to train the next generation of scientists and engineers, placing the US at risk of losing its competitive edge.

Students make a choice to enter graduate or professional schools based on a host of factors, but a cost/benefit analysis is one of those factors. Reducing the likelihood of debt is a major priority when students choose to go on to advanced education. Studies have shown that students average about \$40,000 in graduate and undergraduate debt, with some subpopulations exceeding \$100,000 in debt. Moreover, even among those students receiving substantial financial aid, there is a widening gap. Recent data from the US Department of Education's National Postsecondary Student Aid Survey (NPSAS) indicates that doctoral students (the best-supported student group) have **an average cost of attendance of \$26,800 but receive only \$22,600 per year in aid**. This translates to \$4,200 in shortfall that students must compensate for, usually through credit card debt, personal loans, or assistance from an already-overburdened family.

Research performed by the University of California (UC) finds that it is increasingly difficult to recruit and retain qualified graduate and professional students despite increasing need. The number one reason for this obstacle is the lack of financial support provided to students especially when cost-of-living differences are taken into account.

UC graduate students currently receive \$417 million in financial support. As the table below shows, that support varies greatly among disciplines.

	1998-99		Proportion of Support Provided from Traditional Sources		
	Support Expenditures (millions)	Per Student Support	Research Assistantships	Teaching Assistantships	Fellowships & Grants
Engineering/Computer/Physical Sciences	\$149	\$19,221	52%	23%	25%
Life/Health Sciences	\$88	\$18,418	41%	15%	45%
Humanities/Arts/Social Sciences	\$118	\$16,480	11%	51%	38%
Professions (Education, Business, etc.)	\$62	\$6,015	20%	21%	59%
Total	\$417	\$14,813	Source: UC Office of the President Commission on Graduate Education		

It is also important to note that students in each of these discipline groupings receive their funding in very different combinations. Students in engineering and the physical sciences receive more than half of their support from research assistantships; those in the life and health sciences receive nearly half of their support from fellowships and grants with an additional large contribution from research assistantships; and students in the humanities, arts and social sciences receive over half of their support from teaching assistantships. Students in professional school programs are supported largely through fellowships but receive far fewer dollars of support than other disciplines and are more dependent on loans and their own resources.

As mentioned above, the cost-of-living is a major factor in recruiting and retaining qualified students into graduate and professional programs. Using the UC as an example, it is evident that the average stipend received by graduate and professional students does not keep up with the cost-of-living averages where the campuses are located.

Average Stipend by UC Campus

UC Campus	Average Stipend
Berkeley	\$14,620
Davis	\$10,758
Irvine	\$15,176
Los Angeles	\$11,393
Riverside	\$13,378
San Diego	\$15,627
San Francisco	\$23,244
Santa Barbara	\$13,450
Santa Cruz	\$12,123
Systemwide	\$13,768

Source: UC Office of the President Student Financial Support February 2002

The following table compares the cost of living at or near a UC campus to the national average. Similar comparisons can be expected for university campuses in other major cities.

UC Campus	Percentage Above National COL Average
Berkeley	148.70%
Davis	123.10%
Irvine	128.80%
Los Angeles	148.10%
Riverside	107.60%
San Diego	134.00%
San Francisco	187.30%
Santa Barbara	135.90%
Santa Cruz	142.70%

Source: UC Office of the President Student Financial Support February 2002

To put this into context, a graduate student at UC Berkeley will have to pay, on average, over \$10,000 a year to share a 2-bedroom apartment. This figure does not account for food, transportation or other living expenses.

Making matters worse is the fact that UC campuses are located in some of the most expensive areas of California. Some areas have seen as much as a 22% increase in rent over a one-year period of time (1999 to 2000).

Average UC Off-Campus Rents (2000)

	Average Off-Campus Rent for a 2BD Apt. (2000)	Percent Change from 1999
Berkeley	\$1689	20%
Davis	\$830	6%
Irvine	\$1713	22%
Los Angeles	\$1475	8%
Riverside	\$720	10%
San Diego	\$1386	13%
San Francisco	\$2300	NA
Santa Barbara	\$1700	NA
Santa Cruz	\$1354	15%

Source: UC Housing Task Force Preliminary Housing Report, May 2001

Comparing the average stipends received and the average rent for the communities in which UC campuses are located, it is evident that graduate and professional students are barely making their budgets work in California. This example is being repeated in states across the nation; as university centers attract investment and growth, they become less hospitable to the students who are performing the research driving that growth.

Although steps are being taken to provide some relief such as a recent National Science Foundation decision to increase their fellowship stipend levels, more needs to be done.

Graduate education plays a unique and important role in American society. Graduate education sparks innovations in the sciences, health care, and engineering that reap benefits for society as a whole. Inspiring more students to enter graduate education is imperative to maintaining our nation's competitive advantage in hi-tech fields. Given the new global climate in which the United States finds itself, remaining on the cutting edge of the sciences should be a priority of our federal government. By expanding the tax-exempt treatment of graduate scholarships, the federal government can make an inexpensive statement promoting graduate education while investing in the future.

Attachment 1

Current Law - 26 USC 117 (2)(A)(B)(c)

Sec. 117. - Qualified scholarships

(a) General rule

Gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at an educational organization described in section 170(b)(1)(A)(ii).

(b) Qualified scholarship

For purposes of this section –

(1) In general

The term "qualified scholarship" means 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.

(2) Qualified tuition and related expenses

For purposes of paragraph (1), the term "qualified tuition and related expenses" means -

(A)

tuition and fees required for the enrollment or attendance of a student at an educational organization described in section 170(b)(1)(A)(ii), and

(B)

fees, books, supplies, and equipment required for courses of instruction at such an educational organization.

(c) Limitation

Subsections (a) and (d) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship or qualified tuition reduction.

Attachment 2

Proposed Language

Sec. 117. – Qualified Scholarships

(a) General Rule

Gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at an educational ~~organization~~ institution described in section 170(b)(1)(A)(ii).

(b) Qualified scholarship

For purposes of this section –

(1) In general

The term “qualified scholarship” means 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~~ the total cost of attendance at the educational institution.

~~(2) Qualified tuition and related expenses~~

~~For purposes of paragraph (1), the term “qualified tuition and related expenses” means—~~

- ~~(A) — tuition and fees required for the enrollment of attendance of a student at an educational organization described in section 170 (b)(1)(A)(ii), and~~
- ~~(B) — fees, books, supplies, and transportation required for courses of instruction at such an educational organization~~

(2) Cost of Attendance

For purposes of paragraph (1) the term “cost of attendance” means –

- (A) tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including cost for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study
- (B) an allowance for books, supplies, transportation, and miscellaneous personal expenses, including reasonable allowance for the documented rental or purchase of a personal computer, for a student attending the institution on at least a half-time basis, as determined by the institution;
- (C) an allowance (as determined by the institution) for room and board costs incurred by the student which -
 - (i) shall be an allowance determined by the institution for a student without dependents residing at home with parents;
 - (ii) for students without dependents residing in institutionally owned or operated housing, shall be a standard allowance determined by the institution based on the amount normally assessed most of its residents for room and board; and

- (iii) for all other students shall be an allowance based on the expense reasonably incurred by such students for room and board
- (D) for less than half-time students (as determined by the institution) tuition and fees and an allowance for only books, supplies, and transportation (as determined by the institution) and dependent care expenses (in accordance with paragraph (h));
- (E) for a student enrolled in an academic program in a program of study abroad approved for credit by the student's home institution, reasonable costs associated with such study (as determined by the institution at which such student is enrolled);
- (F) for a student with one or more dependents, an allowance based on the estimated actual expenses incurred for such dependent care, based on the number and age of such dependents, except that -
 - (i) such allowance shall not exceed the reasonable cost in the community in which such student resides for the kind of care provided; and
 - (ii) the period for which dependent care is required includes, but is not limited to, class-time, study-time, field work, internships, and commuting time;
- (G) for a student with a disability, an allowance (as determined by the institution) for those expenses related to the student's disability, including special services, personal assistance, transportation, equipment, and supplies that are reasonably incurred and not provided for by other assisting agencies;
- (H) for a student receiving all or part of the student's instruction by means of telecommunications technology, no distinction shall be made with respect to the mode of instruction in determining costs;
- (I) for a student engaged in a work experience under a cooperative education program, an allowance for reasonable costs associated with such employment (as determined by the institution); and
- (J) for a student who receives a loan under this or any other Federal law, or, at the option of the institution, a conventional student loan incurred by the student to cover a student's cost of attendance at the institution, an allowance for the actual cost of any loan fee, origination fee, or insurance premium charged to such student or such parent on such loan, or the average cost of any such fee or premium charged by the Secretary, lender, or guaranty agency making or insuring such loan, as the case may be

~~(e) Limitation~~

~~Subsections (a) and (d) shall not apply to that portion of any amount received which represents payment for teaching, research, or other services by the student required as a condition for receiving the qualified scholarship or qualified tuition reduction.~~

Table 198.—Total fall enrollment in degree-granting institutions, by level of enrollment and state: 1998 and 1999

State or other area	Fall 1998				Fall 1999			
	Total	Under-graduate	First-profes-sional	Graduate	Total	Under-graduate	First-profes-sional	Graduate
1	2	3	4	5	6	7	8	9
United States	14,506,967	12,436,937	302,473	1,767,557	14,791,224	12,681,231	303,190	1,806,803
Alabama	216,241	189,480	4,401	22,360	223,144	192,026	4,364	26,754
Alaska	27,652	26,199	—	1,453	26,948	25,369	—	1,579
Arizona	302,123	267,539	2,152	32,432	326,159	285,473	2,328	38,358
Arkansas	113,751	103,778	1,659	8,314	115,092	105,183	1,675	8,234
California	1,949,508	1,717,810	32,145	199,553	2,017,483	1,778,672	31,729	207,082
Colorado	257,247	215,053	3,276	38,918	261,744	217,822	3,245	40,677
Connecticut	153,336	120,151	3,429	29,756	156,907	123,419	3,497	29,991
Delaware	46,260	40,075	1,080	5,105	46,613	40,507	1,057	5,049
District of Columbia	72,388	40,163	8,689	23,536	72,118	40,024	8,595	23,499
Florida	661,187	586,686	10,467	64,034	684,745	602,515	10,576	71,654
Georgia	303,685	255,958	10,698	37,029	311,812	263,366	9,821	38,625
Hawaii	61,615	53,942	469	7,204	62,578	53,991	486	8,101
Idaho	63,085	55,411	542	7,132	64,661	57,316	541	6,804
Illinois	729,084	615,341	16,870	96,873	733,182	618,649	16,690	97,843
Indiana	299,176	259,018	5,836	34,322	304,725	263,888	5,921	34,916
Iowa	181,944	158,933	6,609	16,402	186,780	163,729	6,779	16,272
Kansas	177,561	154,650	2,181	20,730	176,737	153,331	2,140	21,266
Kentucky	180,550	155,038	4,962	20,550	181,626	156,271	5,071	20,284
Louisiana	221,110	189,292	5,780	26,038	221,348	189,412	6,231	25,705
Maine	56,986	50,082	792	6,112	57,822	51,122	776	5,924
Maryland	265,173	216,498	4,203	44,472	268,820	219,172	4,157	45,491
Massachusetts	415,501	316,525	14,228	84,748	419,695	320,370	14,592	84,733
Michigan	557,011	473,829	10,277	72,905	558,998	474,676	10,309	74,013
Minnesota	271,612	234,089	6,063	31,460	282,756	243,640	6,157	32,959
Mississippi	132,438	119,080	1,774	11,584	133,170	119,395	1,719	12,056
Missouri	310,507	258,331	9,859	42,317	317,480	263,719	9,911	43,850
Montana	44,150	40,384	259	3,507	43,114	40,162	238	2,714
Nebraska	111,123	96,476	3,170	11,477	110,806	96,311	3,182	11,313
Nevada	83,120	74,439	345	8,336	89,711	80,834	481	8,396
New Hampshire	60,784	51,056	677	9,051	63,366	53,641	645	9,080
New Jersey	325,885	277,403	5,113	43,369	330,537	280,649	5,564	44,324
New Mexico	108,810	94,609	927	13,274	111,896	97,226	1,021	13,649
New York	1,014,220	815,055	28,286	170,879	1,020,991	820,973	27,861	172,157
North Carolina	387,407	343,569	7,748	36,090	395,907	351,037	7,705	37,165
North Dakota	39,441	36,256	435	2,750	40,348	37,117	418	2,813
Ohio	542,077	463,755	12,517	65,805	548,545	469,558	12,719	66,268
Oklahoma	178,507	153,822	3,793	20,892	179,055	155,348	4,066	19,641
Oregon	171,056	149,407	3,950	17,699	175,635	153,373	4,074	18,188
Pennsylvania	595,749	496,976	16,922	81,851	605,283	504,850	17,451	82,982
Rhode Island	73,970	63,597	932	9,441	74,821	64,370	1,055	9,396
South Carolina	181,353	155,819	3,062	22,472	183,626	159,408	3,031	21,187
South Dakota	41,545	36,591	579	4,375	42,147	37,384	558	4,205
Tennessee	251,319	218,027	5,573	27,719	252,915	219,433	5,617	27,865
Texas	978,550	854,423	19,901	104,226	990,587	867,635	18,566	104,386
Utah	151,232	139,154	1,258	10,820	161,591	148,329	1,293	11,969
Vermont	37,054	32,303	878	3,873	36,728	32,237	878	3,613
Virginia	370,142	313,878	7,527	48,737	377,970	322,241	7,723	48,006
Washington	298,974	271,474	4,236	23,264	306,723	278,426	4,420	23,877
West Virginia	88,107	76,066	1,522	10,519	88,657	77,104	1,648	9,905
Wisconsin	301,963	268,275	4,045	29,643	304,776	270,684	4,180	29,912
Wyoming	29,707	27,181	377	2,149	29,002	26,500	429	2,073
U.S. Service Schools	13,991	13,991	—	—	13,344	13,344	—	—
Outlying areas	181,244	164,369	3,105	13,770	185,244	167,581	3,269	14,394
American Samoa	909	909	—	—	1,172	1,172	—	—
Federated States of Micronesia	772	772	—	—	1,506	1,506	—	—
Guam	5,758	5,350	—	408	5,727	5,285	—	442
Marshall Islands	513	513	—	—	616	616	—	—
Northern Marianas	1,239	1,239	—	—	1,080	1,080	—	—
Palau	424	424	—	—	569	569	—	—
Puerto Rico	168,983	152,703	3,105	13,175	171,832	154,814	3,269	13,749
Virgin Islands	2,646	2,459	—	187	2,742	2,539	—	203

—Not available or not applicable.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), "Fall Enrollment" survey. (This table was prepared March 2001.)

NOTE: Data for 1998 revised from previously published figures. Data for U.S. Service Schools reflect substantial changes in survey coverage. Data are for 4-year and 2-year degree-granting institutions that participated in Title IV federal financial aid programs. Data for 1999 imputed using alternative methods. (See *Guide to Sources* for details.)

Table 1.13.—Average expenses for graduate and first-professional students, by attendance status, type of degree, and institution type: 1999–2000

Type of degree and institution type	Full-time, full-year			Part-time, full-year tuition and fees	Part-time, part-year tuition and fees
	Total student budget	Tuition and fees	Total non-tuition expenses*		
Total	\$26,219	\$11,255	\$13,210	\$3,761	\$1,607
Master's degree	23,686	9,663	12,773	3,772	1,874
Public	19,157	5,745	11,882	2,136	1,126
Nondoctorate-granting	16,901	4,597	10,908	1,847	1,020
Doctorate-granting	19,636	5,988	12,088	2,266	1,179
Private not-for-profit	29,807	14,763	14,066	6,006	2,766
Nondoctorate-granting	23,852	10,671	12,897	4,598	2,018
Doctorate-granting	31,931	16,217	14,482	6,688	3,128
Doctoral degree	26,805	9,443	13,135	3,432	1,719
Public	22,609	6,375	12,337	2,586	1,266
Private not-for-profit	33,639	14,274	14,486	5,427	2,735
First-professional degree	31,441	16,109	14,285	7,648	2,799
Public	24,617	9,951	13,712	4,526	(#)
Private not-for-profit	37,178	21,230	14,816	9,165	3,484
First-professional degree					
Medicine (M.D.)	33,884	17,250	15,505	(#)	(#)
Other health science degree	30,490	15,523	14,109	(#)	(#)
Law (L.L.B. or J.D.)	31,128	16,468	13,427	9,634	(#)
Theology (M.Div., M.H.L., B.D.)	(#)	(#)	(#)	2,893	(#)

#Too few cases for a reliable estimate.

*Includes room and board, books and supplies, transportation, and personal expenses.

NOTE: Except where limited as indicated by a row label, data include students in graduate programs other than master's, doctoral, and first-professional and students in private for-profit institutions

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1999–2000 National Postsecondary Student Aid Study (NPSAS:2000).

Average amount of financial aid received by aided graduate and first-professional students, by type of aid, type of degree, institution type, and attendance pattern: 1999–2000

Type of degree, institution type, and attendance pattern	Any aid	Grants ¹	Loans	Assistant-ships	Tuition waivers ²	Stafford loans ³	Work study
All students							
Total	\$13,255	\$5,944	\$14,486	\$9,033	\$4,525	\$12,849	\$3,034
Master's degree	10,391	4,950	12,358	7,288	3,988	11,309	2,718
Public	8,602	3,924	9,770	7,250	3,798	9,547	2,914
Nondoctorate-granting	6,561	2,495	9,131	5,329	2,059	8,849	(#)
Doctorate-granting	9,168	4,321	9,969	7,442	4,139	9,764	3,639
Private not-for-profit	12,375	6,145	14,655	7,661	4,572	12,696	2,609
Nondoctorate-granting	7,970	3,725	10,729	(#)	(#)	10,479	(#)
Doctorate-granting	14,086	7,031	16,090	8,632	5,376	13,521	2,800
Doctoral degree	18,466	10,686	13,175	11,711	5,525	12,059	4,569
Public	16,065	8,302	10,247	11,164	5,201	10,279	6,113
Private not-for-profit	23,332	14,965	17,091	13,381	9,559	14,422	2,959
First-professional degree	21,505	6,507	19,559	4,799	4,602	16,428	2,790
Public	18,101	4,697	16,277	5,544	3,024	14,633	(#)
Private not-for-profit	24,014	7,797	22,003	4,186	(#)	17,787	2,659
Attendance pattern							
Full-time, full-year	19,521	8,930	16,728	9,805	5,722	14,340	2,834
Full-time, part-year	11,515	6,033	12,034	7,276	4,429	10,507	(#)
Part-time, full-year	8,575	3,959	11,706	7,493	3,449	11,298	4,284
Part-time, part-year	3,738	2,157	7,061	6,576	2,307	7,089	(#)
Full-time, full-year students							
Total	19,521	8,930	16,728	9,805	5,722	14,340	2,834
Master's degree	16,431	7,606	14,791	7,961	5,150	12,864	2,577
Public	14,036	6,579	11,585	8,237	4,966	11,103	2,878
Nondoctorate-granting	12,971	4,778	11,616	(#)	(#)	10,844	(#)
Doctorate-granting	14,230	6,870	11,576	8,467	5,253	11,172	(#)
Private not-for-profit	19,758	9,065	17,903	7,474	(#)	14,343	2,424
Nondoctorate-granting	12,133	5,205	13,228	(#)	(#)	12,510	(#)
Doctorate-granting	22,277	10,005	19,346	8,477	(#)	14,943	2,589
Doctoral degree	22,663	13,372	14,085	12,387	6,443	12,652	4,236
Public	19,047	9,842	10,628	11,706	5,869	10,679	(#)
Private not-for-profit	28,634	18,691	18,179	14,054	12,783	14,915	2,843
First-professional degree	22,803	6,942	20,141	4,574	3,581	16,780	2,735
Public	18,832	4,863	16,738	4,623	3,072	14,875	(#)
Private not-for-profit	26,043	8,673	22,961	4,534	(#)	18,391	2,615

#Too small to report.

¹Grants include scholarships, fellowships, tuition waivers, and employer aid.

²Included in "Grants" column as well.

³Included in "Loans" column as well.

NOTE: Except where limited as indicated by a row label, data include students in graduate programs other than master's, doctoral, and first-professional and students in private for-profit institutions.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1999–2000 National Postsecondary Student Aid Study (NPSAS:2000).