

New Wave Taxation: No Income Necessary

Congress's latest tax bill calls tuition credits 'income'

Congratulations on your scholarship. Uncle Sam wants a piece.

That's the situation graduate students at expensive private schools like Stanford and Santa Clara University may soon find themselves in if a new addition to the IRS code takes effect.

The new law will treat tuition credits as taxable income and make recipients liable for taxes on money they will never even see. Worse yet, some students could face stiff penalties if the IRS decides to enforce its withholding guidelines.

Stanford's Dean of Graduate Studies Elizabeth Traugott brought the unwelcome news to a recent session of the university's Faculty Senate. The news is expected to be of little concern to graduate students at less expensive public institutions except insofar as it portends policies to come regarding the taxation of federal student financial aid.

The change represents one of the government's attempts to alleviate one of Washington's most perplexing dilemmas: how to reduce the federal deficit without raising tax rates. Indeed, President Reagan—over the objections of Walter Mondale (remember him?)—promised it could be done in his last campaign. And the American people—with the exception of skeptical Minnesota—signed on for another four more years of voodoo economics.

The near impossible challenge of increasing revenue without raising taxes helped lead to the little-noticed change in the IRS tax code. The change will become effective this year unless altered in the Senate.

What worries some is that the regulation taxes money that isn't there, as credits are often in the form of fee reductions.

"We are extremely concerned about the impact of the new tax situation on students," Traugott says, adding that the additional tax burden will amount to about \$500 per quarter per affected graduate student. Traugott estimates that approximately 700 Stanford students will be affected by the new rule.

Though Stanford students are not alone in their plight, San Jose State's Dean of Graduate Studies Serena Stanford reports that the deletion of Section 127 will have little impact upon students at less expensive public institutions like SJSU.

"We have so few RAs and TAs (Research Assistants and Teaching Assistants), Stanford says, "and even fewer graduate assistants, so this will have a very, very small effect on us." Unlike private universities, San Jose State has few tuition waiver programs.

Nevertheless, the SJSU dean still thinks the elimination of Section 127 represents a "tremendous unfairness" to grad students at schools like Stanford.

"In addition to providing partial tuition waivers, they [private institutions] bring in many of their Master's and Doctoral students on full stipends," Stanford notes. "For students at places like Stanford and Santa Clara University, this is very bad news indeed."

"We very much hope that Congress will reinstate the exemption," Traugott told her colleagues on the Stanford Faculty Senate. "If the exemption is not reinstated, students will be subject to penalties if withholding is too late or too low," she warned.

Resistance could surface, however, from organized labor to a full reinstatement of Section 127. Labor leaders object to a part of the section which provides for taxation of any tuition waivers or educational assistance

granted as a result of collective bargaining—in effect making unionized workers liable for taxes on tuition and educational assistance for which non-unionized workers aren't taxed.

In the past, national labor leaders have strongly opposed taxing educational benefits provided to their members by employers and have voiced objections to language in Section 127 which singles out unionized workers for special taxation.

Though the objectionable portions of

the old Section 127 were not brought to the attention of Stanford's Faculty Senate, Dean Traugott did announce an "open meeting for the campus community" on the subject of Section 127 to be held January 29 at a time and location to be announced.

Meanwhile, officials at Santa Clara University say they are unaware of the tax code changes. "I don't know anything about it," confessed SCU's Personnel Director Manuel Molina when contacted. The personnel office is

responsible for enforcement of IRS withholding regulations at SCU. Calls to four other departments at SCU showed that Molina was not alone in his confusion.

"Oh God," said another SCU official who asked not to be identified, "thanks for telling me about this."

Reports of confusion at other universities across the nation are widespread thanks to the hurried manner in which Congress passed the bill late last year. —Hal Plotkin