

MIT POLICY ON REASONABLE COMPENSATION FOR
RESEARCH ASSISTANTS AND TEACHING ASSISTANTS

HISTORY: Prior to 1987 the Research Assistant stipend and the Graduate Fellowship Award stipend were considered tax-free scholarships or fellowships by the Internal Revenue Service. The Teaching Assistant stipend was always considered taxable salary for services rendered.

In 1986 Congress passed the Tax Reform Act of 1986 which, among many other things, stated that, effective January 1, 1987 Research Assistant stipends would be considered, and treated, as salary. Also, that piece of legislation changed the way fellowship stipends would be treated. Effective January 1, 1987 fellowship stipends would be considered, and treated as, taxable scholarships.

Because this piece of legislation left many questions unanswered the Internal Revenue Service issued explanatory documents to help answer or eliminate much of the confusion caused by this legislation. One of the documents issued by the IRS was **Revenue Notice 87-31** which basically stated that *“where a portion of a scholarship is granted in return for services, the grantor must make a good faith allocation, based on all the facts and circumstances, to determine that portion of the amount that represents compensation for services provided by the recipient.”* Failure to make this “good faith effort” to provide reasonable compensation for the services provided by the student would mean that the entire tuition award would be considered taxable; that is, the employer would have to issue a Form W-2 to the student indicating the entire amount of tuition as taxable and the student would have to pay the entire tax liability at year end.

COMMENT: During the early and mid 1990s the Internal Revenue Service conducted what was referred to as the *Coordinated Examination Program* audits at approximately fourteen major universities. By later in the decade the IRS had decided that one of the items that they had never examined was the **“reasonable compensation”** issue articulated in 1987. Consequently, five universities, including MIT, were required to submit a response to the IRS in defense of the position that each of the universities was providing reasonable compensation to their Research Assistants and Teaching Assistants. All of the five university’s responses were favorably received by the IRS.

ISSUE: In consideration of the reasonable compensation requirement MIT has made a decision that MIT will not allow Research Assistant or Teaching Assistant appointments to be provided which contain only a Tuition Award. Also, MIT’s policy requires that where a partial (or reduced) Research Assistant or Teaching Assistant appointment is provided, and there is to be a tuition award included, there must be, at least, that reasonable allocation of dollars between salary and the tuition award. This reasonable allocation must be consistent with the proportional allocation of a standard full time appointment.

It is allowable to allocate more dollars to salary and less to tuition than the standard proportional allocation because this would exceed the Internal Revenue Service's requirement.

Occasionally, a student is in need of only the salary portion of the Research or Teaching Assistant appointment because he/she has settled his/her tuition obligation through some other means. Providing a student with an RA or TA appointment with just salary (and no tuition award) is allowable because, once again, this exceeds the IRS's requirement.

On occasion a student who is being provided a Research Assistant or Teaching Assistant appointment may only be in need of the Tuition Award portion because his/her salary is being provide from an outside source (usually the student's employer including the military). Never the less, MIT requires that an appointment be provide to the student with both components of salary and tuition. In such a case the student should be provided with a reduced salary and a commensurately reduced tuition award. The intent is that the net pay from the monthly salary checks will be sufficient to pay off the shortfall on the reduced tuition award.

EARLY THESIS: When a student presents his/her thesis during a term and, as a result, resigns his/her Research or Teaching Assistant appointment after the "withdrawal" date, the amount of the tuition is "accelerated" as opposed to a simple proration. The acceleration tuition amount compared to the salary (for the adjusted appointment) will result in different percentages than a normal appointment. This is an allowable situation because the student's salary will still be at the normal full time rate which has already been recognized as reasonable compensation for the services.

EXAMPLE OF STUDENT IN NEED OF TUITION ONLY

The following are the steps used in determining how much of a reduced appointment, or how much of a reduced level of effort, should be provided in an example where the student is to be provided with the value of the current term's tuition.

STEP 1 - Determine the percentages of salary and the tuition award of a normal or standard appointment to the entire appointment value.

Standard Research Assistant Appointment For Term		
Salary	\$12,933.00	36.00 %
Tuition	\$23,200.00	64.00 %
Total:	\$36,133.00	100.00 %

STEP 2 - Apply the percentages determined in Step 1 to the amount of the tuition for the term to determine how much of the total must be applied to salary and how much can be applied to the tuition award.

“Tuition Only” Appointment Split Between Salary and Tuition Award		
Salary	36% x \$23,200.00 =	\$8,352.00
Tuition	64% x \$23,200.00 =	\$14,848.00
Total		\$23,200.00

STEP 3 – The salary that was computed in Step 2 will be subject to federal and Massachusetts income tax withholding. This means that the salary that was computed in Step 2 will not be sufficient to provide enough net pay to pay off the tuition balance caused by the partial tuition award. Therefore it is necessary to compute the taxes that will be withheld (assuming certain factors) and “gross up” or increase the salary portion of the appointment.

\$8,352.00 ÷ 4 ½ mos. =	\$1,856.00 Mo Gross	
	278.40 Fed Tax	15.00% variable tax factor
	98.37 MA Tax	5.3% tax factor
	\$1,479.23 Net Pay	
less Gross Pay	1,856.00	
equals	\$ 376.77 Shortfall	

The shortfall in the net pay is then grossed up to determine a new higher salary to provide the necessary net pay to cover the tuition shortfall.

\$376.77 ÷ (100% - [15% + 5.3%]) =	\$472.74	additional monthly gross pay
	\$1,856.00	add previously calculated gross
equals	\$2,328.74	new monthly gross to provide net pay to cover tuition shortfall so there is no cost to student.
\$2,328.74 x 4 ½ mos. =	\$10,479.31	new salary for term.
add	14,848.00	previous tuition award
equals	\$25,327.31	new total for appointment

STEP 4 - Having determined a new appointment total, it is necessary to perform a reallocation between salary and tuition (using the full time allocation percentages) to provide a more precise result.

$\$25,327.31 \times 36\% =$	\$9,117.83	adjusted salary for term
$\$25,327.31 \times 64\% =$	16,209.48	adjusted tuition award for term
equals	\$25,327.31	new total for appointment

STEP 5 – This final step is a verification of the previous calculations to be sure that the allocation is accurate.

$\$9,117.83 \div 4 \frac{1}{2} \text{ mos.} =$	\$2,026.18	monthly gross pay
less	303.93	federal tax
less	107.39	Mass tax
equals	\$1,614.87	monthly net pay
x 4 ½ mos.		
equals	\$7,266.91	net pay for tuition shortfall
add	16,209.48	tuition award
equals	\$23,476.39	total net available for tuition
less	23,200.00	total tuition bill
equals	\$276.39	excess net pay

STEP 6 – The final level of effort appointment is then calculated and rounded up to the nearest whole percentage and commensurate dollars as follows:

\$9,117.83	Salary	36.00%
16,209.48	Tuition Award	64.00%
\$25,327.31	Total Appointment	100.00%

$\$25,327.31 \div \$36,133.00 = 70\% \text{ rounded to } 70.00\% = \text{level of effort}$
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$70\% \times \$36,133.00 =$	\$25,293.10	$\times 36\% =$	\$9,105.52	salary
		$\times 64\% =$	16,187.58	tuition award
			\$25,293.10	total appointment