Reasonable Compensation Rule

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Overview

When the tuition amount entered on an appointment is too high in relation to the salary, an automatic adjustment will be made to bring them in balance with the 64/36 rule, including a gross up calculation to cover taxes on the salary portion. A Student Payback Amount will be listed. The student will be informed of this in their notification email.

Details

According to IRS regulations, a Research Assistantship (RA) or a Teaching Assistantship (TA) appointment cannot be a tuition-only appointment. Fellowships can be tuition-only.

If the student is in need of **salary only**, providing the student with an RA or TA appointment with salary only is allowed.

If the student is in need of **tuition only**, MIT's policy is to allocate dollar amounts both to salary and tuition components following ***reasonable compensation*** rules.

The reasonable compensation calculations will be automatically applied to an appointment entered into GAP that meets the criteria. The calculations are based on
guidelines provided by the Office of the Dean for Graduate Education (ODGE).

How is reasonable compensation applied?

- If the student is in need of both salary and tuition, and the student total tuition shortfall **is greater than 66.31% of the total shortfall** (Salary + Tuition), reasonable compensation rules will be applied to distribute the dollar amounts between salary and tuition components of the award, based on the 64/36 ratio (tuition/salary).
- The dollar amount corresponding to the 36% - Salary of total shortfall is used to create payment plan by Student Financial Services (SFS). The 36% Salary will appear as receivable on the student account.
- As the 36% Salary is student payback to SFS, and the student will need to pay taxes on the salary received, MIT supplements the salary portion of the tuition shortfall by 21% (gross up) so that student is not paying taxes out of pocket for the tuition shortfall paid as salary.
- Salary supplement of 21% for 36% of Total tuition shortfall is defined below:
    - 15% - To cover Federal Taxes
    - 6% - To cover State Taxes
    - In case of any salary shortfall, MIT does not supplement for taxes. Salary shortfall is added after 21% supplement added to the 36%-Salary component of the tuition shortfall.
- Graduate students are expected to pay Student Financial Services the 36% of salary paid through the supplemental appointment. If a Graduate Student fails to pay the tuition amount, a financial hold will be placed on the student account which will not allow the student to register for the next term. Financial blocks will make students ineligible to be on the degree list.

How will this work in GAP?

Reasonable compensation is built into the Create and Change appointment screens in the application. When the appointment amounts for tuition and salary are entered, the application will automatically determine if the appointment qualifies for reasonable compensation. If appointment qualifies for reasonable compensation, the application will calculate the tuition and salary/stipend amounts (gross salary) and update the distribution line items with those amounts.

A notification message will appear, informing you that reasonable compensation has been applied.

You may, if you wish, remove the reasonable compensation calculation by clicking the link to the right. If you do this, you will be required to enter a reason, and the appointment will to to ODGE for approval.

Change Appointment

When changing an existing appointment, if dollar amounts are adjusted, the application will re-determine if reasonable compensation calculations should apply to the appointment.

- If yes, new tuition and salary amounts are updated.
- If no, reasonable compensation calculations get un-applied automatically and the new salary and tuition amounts are updated.
- The option to remove reasonable compensation will not be available in the Change process.

> ⚠ Adjustments to the accounting entries will take place during end of the day process in SAP.

Early Termination

For early termination, see the following for guidelines on whether the reasonable compensation rule applies:

Termination reason	Proration (Stipend/Tuition)	Reasonable Compensation Kick-in?
Early thesis	Registrars Proration Table	No
Drop term (Summer only)	Registrars Proration Table	No
Withdrawal within five weeks	Registrars Proration Table	No
Withdrawal later than five weeks	Registrars Proration Table	No
Other	Straight line proration	Yes

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