



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
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The Honorable Sherrod Brown
United States Senator
1301 East 9th Street, Suite 1710
Cleveland OH 44114

Attention:

Dear Senator Brown:

I am responding to your inquiry dated April 1, 2010, on behalf of your constituent, . is a law school student who receives tuition reduction because his wife is employed by the law school. asked why the tuition reduction he receives because of his wife's employment is taxable even though it is similar to a scholarship that is excludable from gross income under section 117 of the Internal Revenue Code (the Code). also asked about the possibility of an exemption from income tax on his tuition reduction because of financial hardship. In addition, he asked about amending section 117 of the Code to exclude tuition reduction payments at the graduate level from gross income.

Gross income does not include any amount received as a qualified scholarship by an individual who is a candidate for a degree at certain educational institutions, including a law school (section 117(a) of the Code).

The Code, however, treats qualified tuition reductions differently from scholarships. The exclusion from gross income for tuition reduction generally applies only to the amount of any reduction for education below the graduate level (section 117(d) of the Code). Because law school education is clearly at the graduate level, the tuition reduction fails to meet the requirements for exclusion from gross income and thus, constitutes gross income to .

The statute does not exempt graduate students suffering from financial hardship from including tuition reductions in gross income. Therefore, the IRS cannot grant an exemption to . Only Congress can change the tax treatment of tuition reductions at the graduate level.

I hope this information is helpful. If you have any additional questions, please contact me or at .

Sincerely,

Michael J. Montemurro
Chief, Branch 4
Office of Associate Chief Counsel
(Income Tax and Accounting)