## **UT Grad Student Taxes**

2023 Edition

Written by Ryan Ellin

#### Caveats

- > I'm not a tax professional. This presentation is meant for entertainment purposes only
- > I don't know much about international student taxes, but UT has some online resources about the topic
- > Tax law is complex and I might make mistakes
- My goal: give a good general introduction. Some topics will be simplified

#### Introduction

- > You will need to deal with taxes moving forward
- > There are many kinds of taxes, paid by different people at different times. Ex: sales taxes, property taxes, dividend taxes
- > We'll be focusing on State Taxes, FICA Taxes, and Federal Income Taxes
- > First, let's cover the basic mechanics of taxes

## Basics: Flat vs Progressive Taxes

- > A Flat (or Proportional) Tax is a flat percentage of your earnings which doesn't change depending on how much you make
- A Progressive Tax is a tax whose effective rate increases as your taxable earnings increase. The more you make, the more you'll pay as a percentage of earnings
- > Progressive taxes use Tax Brackets: your taxable earnings are divided into chunks which are taxed at different rates

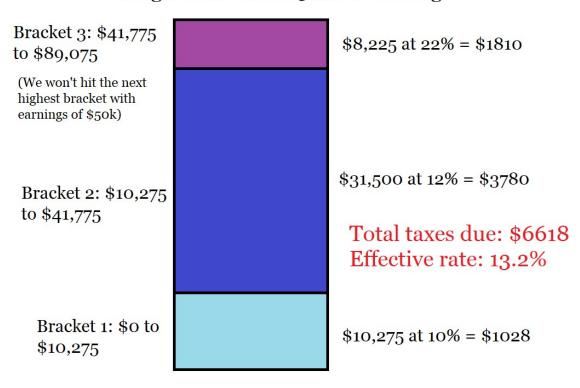
#### Tax Brackets

- > Think of tax brackets as buckets which are filled in ascending order: first your earnings fill the lowest rate bucket. If there is still money left over, it will then fill the next highest rate bucket, and so on
- "I'll lose money if I'm pushed into a higher tax bracket!" is a common misconception

# TAX BRACKET EXAMPLE

- Example: Single filer with \$50,000 in earnings (after deductions, covered later)
- Under 2022 Federal tax brackets, their income would be divided into 3 chunks
- Each chunk is then taxed at the appropriate rate for that year

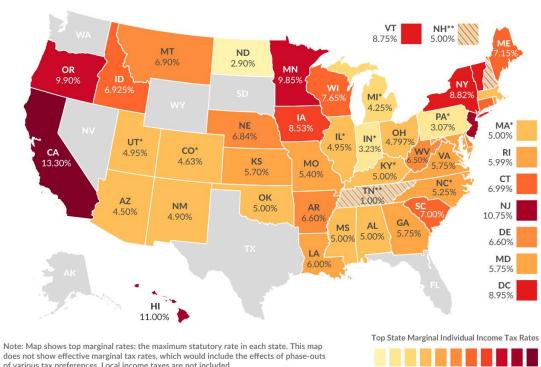
#### Single Filer with \$50k in Earnings



#### **State Taxes**

#### How High are Individual Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2020



does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

(\*) State has a flat income tax.

(\*\*) State only taxes interest and dividends income.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

Lower Higher

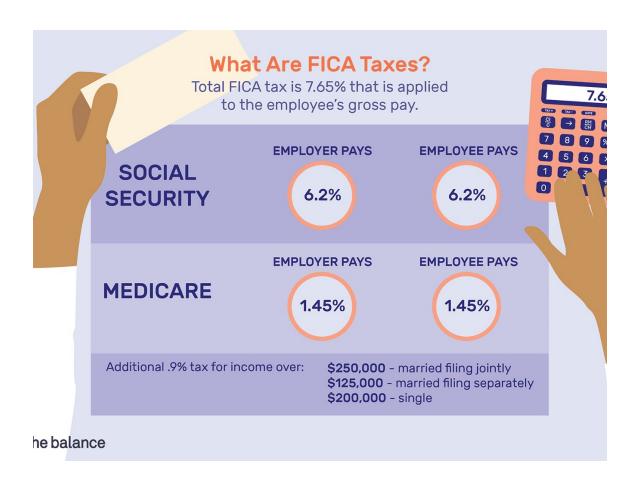
TAX FOUNDATION

@TaxFoundation

#### **State Taxes**

- > State Taxes are taxes you pay to your state of residence
- > State taxes vary significantly between states. Some have a flat tax, others a progressive tax, and some have no state taxes at all
- > Good news: Texas has no state taxes!
- > Potentially bad news: if you lived in another state for a portion of 2022, you may owe state taxes there for your 2022 filings

#### **FICA Taxes**



#### **FICA TAXES**

- FICA Taxes: A Social Security Tax and a Medicare Tax
- AKA "Payroll Taxes"
- The Social Security tax is a flat tax up to a threshold
- The Medicare Tax is a progressive tax
- For most, this will be a 7.65% tax
- Regressive tax for very high earners

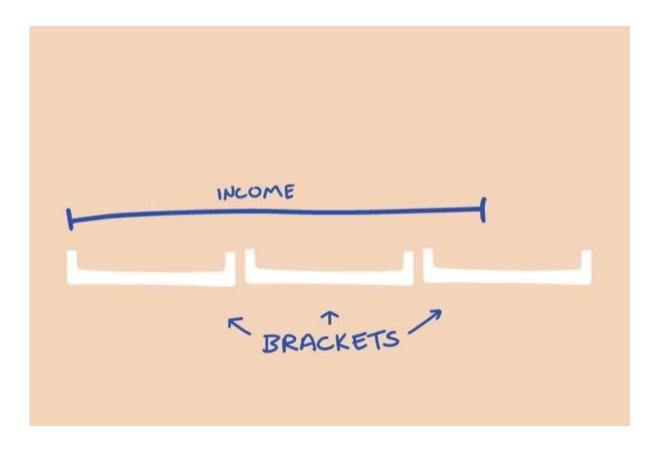
#### 2021-2022 FICA tax rates and limits

	Employee pays	Employer pays
Social Security tax (aka OASDI)	6.2% (only the first \$142,800 in 2021; \$147,000 in 2022)	6.2% (only the first \$142,800 in 2021; \$147,000 in 2022)
Medicare tax	1.45%.	1.45%.
Total	7.65%	7.65%
Additional Medicare tax	0.9% (on earnings over \$200,000 for single filers; \$250,000 for joint filers)	

#### **FICA Taxes Continued**

- Most employees subject to "Withholding" for FICA Taxes: a portion of pay is automatically taken out (withheld)
- > Handled by your employer
- > Good news for grad students: we're not (usually) subject to FICA Taxes! (See link below)

## Federal Income Taxes



#### Federal Income Tax Basics

- > Federal Income Tax: a progressive tax on earnings which is consistent across the US
- > Unfortunately, grad students have to pay this
- > For most employees (including TAs), handled by automatic withholding on their pay
- If your income is not subject to withholding (ie those on fellowships), you will need to make Estimated Tax Payments throughout year

## Federal Income Tax brackets (2022)

- Pictured: the 2022-23 tax brackets
- Brackets mostly depend on marriage
- "Head of Household" means something like "single with a child / dependent"

Tax		Married Filing	Married Filing	Head of
Rate	Single	Jointly	Separately	Household
10%	Up to \$10,275	Up to \$20,550	Up to \$10,275	Up to \$14,650
12%	\$10,276 to \$41,775	\$20,551 to \$83,550	\$10,276 to \$41,775	\$14,651 to \$55,900
22%	\$41,776 to \$89,075	\$83,551 to \$178,150	\$41,776 to \$89,075	\$55,901 to \$89,050
24%	\$89,076 to \$170,050	\$178,151 to \$340,100	\$89,076 to \$170,050	\$89,051 to \$170,050
32%	\$170,051 to \$215,950	\$340,101 to \$431,900	\$170,051 to \$215,950	\$170,051 to \$215,950
35%	\$215,951 to \$539,900	\$431,901 to \$647,850	\$215,951 to \$323,925	\$215,951 to \$539,900
37%	\$539,901 or more	\$647,851 or more	\$323,926 or more	\$539,901 or more



#### Tax Deductions and Credits

- > Tax Deductions and Tax Credits reduce your federal income tax burden
- A <u>Deduction</u> reduces your tax bill by functionally reducing your taxable income; if you made \$20,000 and have a \$12,000 deduction, you will only have to pay taxes as though you had made \$8,000
- > The amount you save will depend on your tax bracket

## Tax Deductions and Credits (cont)

- A <u>Tax Credit</u> is a direct reduction to the amount of money owed: if you owe \$2000 in taxes and you have a \$500 tax credit, your tax bill is reduced to \$1500
- Some tax credits are "refundable" (the IRS will pay you if your credits exceed your bill)

# Why Are Boring People (Like Me) Excited by Deductions and Tax Credits?

- > It's free money!
- > Saving \$100 on your tax bill is the same as being given \$100
- > Learning about deductions and credits will eventually pay off

#### Itemized vs Standard Deduction

- You can choose between Itemized and Standard Deductions each year
- > Itemized Deductions are deductions you gain by tracking various expenses throughout the year
- > Examples: medical bills, sales taxes, property taxes, charitable contributions, state and local taxes, gambling losses, 'casualty and theft losses'
- Aka "Below the line" deductions
- Require tracking throughout year, unlikely to be useful to most students

### **Standard Deduction**

- The Standard Deduction is a simple flat deduction depending on marital status
- Does not require tracking receipts or additional information
- For nearly all grad students, the Standard Deduction wins

Standard Deduction	22-23 Tax Year	23-24 Tax Year				
Single	\$12,950	\$13,850				
Married Filing Jointly	\$25,900	\$27,700				
Married Filing Separately	\$12,950	\$13,850				
Head of Household	\$19,400	\$20,800				

## Quick Tax Estimates for 2022

- Here are quick estimates for what you can expect to owe in taxes, barring unusual circumstances
- Remember, the tax year and school year do not align. First years will often owe less (not being paid in Spring 2022)
- > In the off-chance some other department sees these numbers, I'm sorry if you're underpaid 🖰
- Aside: stipends (such as research / travel) are usually subject to taxes

Total Pay	Federal Taxes	Effective Rate
\$24,000	\$1,121	4.67%
\$26,000	\$1,361	5.23%
\$28,000	\$1,601	5.72%
\$30,000	\$1,841	6.14%
\$32,000	\$2,081	6.50%
\$34,000	\$2,321	6.83%
\$36,000	\$2,561	7.11%
\$38,000	\$2,801	7.37%

## Specific Education Deductions and Credits

- > Two mutually exclusive deductions: the Lifetime Learning Credit and the American Opportunity Tax Credit
- > Disappointingly, probably not very useful
- > There is also a Student Loan Interest Deduction

## Lifetime Learning Credit

- Lifetime Learning Credit: Tax credit of 20% on up to \$10,000 on "Qualified Educational Expenses". These are narrowly defined and are primarily focused on tuition/fees owed directly to the college.
- If you receive full tuition remission, you won't be able to claim the LLC on tuition (but thankfully you don't owe any taxes on tuition remission 'payment' either)
- > I don't think I personally had more than \$10 per year at UT

## American Opportunity Tax Credit

- American Opportunity Tax Credit: a 100%(!) tax credit on the first \$2000 in QEE, and a 25% credit on the next \$2000. Partially refundable!
- > Expanded definition of QEE!
- > The catch? You don't qualify for it after your first 4 years of post-secondary education
- > If you do qualify though, it's the better of the two

#### Student Loan Interest Deduction

- > Shockingly, a deduction for money paid towards student loan interest. Up to \$2500 per year
- > That's pretty much it
- Aside: if you have federally subsidized loans, they shouldn't be accruing interest while you're in grad school, and you should be able to put them in deferment

## Other Common Deductions/Credits

- > It's worth looking into other common Deductions and Credits to see if any apply to you
- Recall /look forward to my presentation about tax advantaged accounts: their entire purpose is to gain deductions
- Parents in particular gain access to some powerful deductions and credits: The Child Tax Credit, Child and Dependent Care Credit, and Earned Income Tax Credit
- > Don't have children for the tax benefits

## **Practical Matters**



### **Practical Matters**

- > Next, the practical aspects of filing taxes as a grad student:
- > What forms will I need, and where can I find them?
- > When do I file my taxes, and how do I actually do that?
- > Potpourri: Refunds, Estimated Tax Payments
- > Edge Case: Kiddie Tax and Dependency
- > Useful informational links

## **Necessary Forms**

- You'll need a Social Security Number (or other Tax Identification Number)
- > The standard forms you will need to file your graduate student taxes are a 1098t and (if not on full-year fellowship) a W-2 form
- May need other forms depending on situation (ex: 1099-DIV if you receive dividends)
- > I have no idea why they're named that way

#### 1098t

www.irs.gov/Form1098T

Department of the Treasury - Internal Revenue Service

#### CORRECTED FILER'S name, street address, city or town, state or province, country, ZIP or 1 Payments received for OMB No. 1545-1574 qualified tuition and related foreign postal code, and telephone number expenses **Austin Community College District** Tuition 256.00 9101 Tuscany Way Statement Austin, TX 78754-4700 512-223-1122 Form 1098-T STUDENT'S TIN Copy B FILER'S employer identification no. 74-1742036 XXX-XX-1234 For Student STUDENT'S name 4 Adjustments made for a 5 Scholarships or grants This is important prior year tax information R.B. Bbhoggawact and is being furnished to the Street address (including apt. no.) 6 Adjustments to 7 Checked if the amount IRS. This form in box 1 includes scholarships or grants must be used to 9101 Tuscany Way amounts for an for a prior year complete Form 8863 City or town, state or province, country, and ZIP or foreign postal code academic period to claim education beginning January-Austin, TX 78754 March 2020 credits. Give it to the tax preparer or use it to 8 Check if at least Service Provider/Acct. No. (see instr.) 9 Checked if a graduate 10 Ins. contract reimb/refund prepare the tax return. 1234567 half-time student student Form 1098-T

(keep for your records)

#### 1098t

- A 1098t reports tuition and related expenses, as well as scholarships and fellowships
- > Colleges must post 1098t forms by 1/31 each year
- > The UT 1098t form should be available at: https://utdirect.utexas.edu/acct/rec/irs1098t/index.WBX
- > If you attended schools other than UT in 2022 (for example, in Spring 2022), you'll need a separate 1098t from them
- Your school will probably email you about it, but you can also usually find it by googling '(school name) 1098t'

## W-2

	a Employee's social security number 123-45-6789	OMB No. 1545	-0008	Safe, accurate, FAST! Use	Visit www	the IRS website at irs.gov/efile	
<b>b</b> Employer identification number	(EIN) 11-2233445		1 Wa	ges, tips, other compensation 48,500.00	2 Federal incom 6,83		
c Employer's name, address, and		<b>3</b> So	cial security wages 50,000.00	4 Social security 3,10	tax withheld		
The Big Co 123 Main S	AND THE RESIDENCE OF THE PARTY	5 Me	edicare wages and tips 50,000.00	vithheld 00			
Anywhere,	PA 12345		7 So	cial security tips	8 Allocated tips		
d Control number	32		9		10 Dependent ca	re benefits	
123 Elm St	DOE treet Else, PA 23456	11 Nonqualified plans  13 Statutory employee plan   Third-party sick pay   Third-party sick		12a See instructions for box 12  D   1,500.00  12b D   1,000.00  12c P   4,800.00			
PA Employer's state ID nur	16 State wages, tips, etc. 50,000	17 State incom 1,53		18 Local wages, tips, etc. 50,000	19 Local income tax 750	20 Locality name	

Wage and Tax Statement

2014

Department of the Treasury-Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

#### W-2

- > The W-2 form is the IRS's standard form for employees paid wages and salaries
- > The W-2 is a form that you're likely to use throughout your life
- > For UT: "W-2 Forms are available in Workday by logging in and clicking on the Pay application, then Tax Documents"
- As with 1098t, you may have other W-2 forms from other colleges / jobs

### When and How to File



#### When to File

- > The Tax Year begins on January 1<sup>st</sup> and ends December 31<sup>st</sup> (Ex: 2022 Tax year was 1/1/22 to 12/31/22)
- > Can take advantage of timing, move payments around
- You are required to File your Federal Income Taxes (that is, fill out and submit the proper forms and pay any outstanding taxes) once per year
- > Filing deadline is April 15<sup>th</sup>, but can apply for extensions

#### How Do I Do That?

- > If very complex, might hire a tax preparer
- > You can, theoretically, fill out and mail in the forms by hand
- > Don't do that, it's horrible
- > Use free tax filing software, which will let you submit and pay your taxes online: <a href="https://apps.irs.gov/app/freeFile/">https://apps.irs.gov/app/freeFile/</a>
- > The software will guide you through the process. With the forms from earlier, it's tedious, but not hard

# What, really? After all that, your advice is just "use the software"?

- > It's important to understand how taxes work for planning and saving
- > But, yeah, that's my advice. The US has ridiculously complicated tax procedures due to a lot of lobbying by TurboTax and H&R Block
- > The free software really is your best choice for working through the actual filing process

## Potpourri: Tax Refunds

- > It's possible that you'll have paid more throughout the year than you actually owe through eg withholding
- > If so, you'll receive a Tax Refund: the excess will be repaid to you!
- Make sure to set up Direct Deposit to your bank account when you file in this case (for convenience and safety)

## **Estimated Tax Payments**

- If a portion of your income is not subject to withholding, you may be required to make Estimated Tax Payments throughout the year
- > The rules for this are complicated, but the rule of thumb I would recommend is:
- > If you will receive \$8,000 or more which is not subject to withholding, you may need to file quarterly estimated taxes

## Estimated Tax Payments cont

- > Fellowship funding is non-withheld!
- > Research/travel stipends count as non-withheld income
- > You can do more specific estimates using the IRS worksheet 1040-ES
- You can pay online, and the due dates for the payments (for next year) are:

1st payment							•	•	•		April 18, 2023
2nd payment			٠								June 15, 2023
3rd payment											Sept. 15, 2023
4th payment											Jan. 16, 2024*

## Edge Case: Kiddie Tax and Dependency

- > The "Kiddie Tax" is designed to prevent people from reducing their taxes by giving money to their children
- In simple terms: if a child satisfies the criterion of the Kiddie Tax, they are taxed at their parents' marginal rate instead of the normal rates
- > Awful side effect: because of the criterion for the Kiddie Tax, it's possible you may be flagged for this

#### **Kiddie Tax Continued**

- As a graduate student, you may be subject to the Kiddie Tax if you satisfy the following:
- You are unmarried (or married filing separately)
- > At least one parent is living
- > You are under age 24 as of 12/31 of the Tax Year in question
- > You were a student for at least 5 months
- Less than 50% of your financial support came from "earned income"

#### **Kiddie Tax Continued**

- > The issue: fellowship funding is considered unearned income!
- > Therefore, those on full fellowship may satisfy these criterion
- › Bottom line: if you are on full fellowship, young, and unmarried, you may be nominally subject to the kiddie tax
- > Practical considerations...

## Dependency

- > Relatedly: if you are under 24, on full fellowship, and lived with your parents for at least half of the year, they may be able to claim you as a dependent on their taxes
- > That might not be a good thing

#### Personal Finance for PhDs

- Much of the grad student specific information of this presentation came from Emily Robert's wonderful site, Personal Finance for PhDs
- > She gave a talk at UT a few years ago, coincidentally shortly after I'd given my own Sophex talk. I even got to ask her about some edge case concerns!
- http://pfforphds.com/