

Taxation: National Health Service Corps Scholarships



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On August 29, 1997, the National Health Service Corps (NHSC) sent notification to health professional schools and students of their intention to begin the federal taxation of the entire amount of scholarship awards to NHSC scholarship recipients. The scholarship consists of funds for tuition, fees, and other reasonable educational expenses and a monthly stipend for living expenses. The scholarship is provided in exchange for the student's commitment to provide primary health care services in a health professional shortage area. According to the Internal Revenue Service (IRS), taxation of the entire scholarship amount is required to comply with a change in the tax code, specifically a 1986 tax amendment to 26 USC 117(c). Before 1986, NHSC scholarship recipients were required to pay taxes only on the stipend part of the scholarship. The tuition and related expenses were excluded from the gross income. To comply with the IRS interpretation, the NHSC will begin December 1, 1997 to withhold tax on the entire amount of the scholarship. This will result in drastic reductions in the amount of money a student receives. This will affect over 50 student nurse-midwives.

In 1997, United States Senator Jim Jeffords (R-VT), a member of the Senate Finance Committee, introduced the NHSC Scholarship Program Incentive Act to resolve this issue. Unfortunately, it was not enacted. However, this important legislation has been reintroduced in the 106th Congress as S. 288. The bill will amend the IRS code so that only the stipend portion of the scholarship is taxed.

Student nurse-midwives have considerable debt from past education loans when they enter a midwifery program. Where will they get the additional money to offset this reduction in scholarship monies? There is precedent with other programs not to tax scholarships: Students with Exceptional Need (EFN), Financial Assistance for Disadvantaged Health Professional Students (FADHPS), and Mental Health Clinical Traineeships (MHCT). These are all programs administered by the Department of Health and Human Services.