General Background

Before we dive into the grad student-specific material, I will teach or review for you some basic terms and concepts that are integral to understanding your federal income tax.

Vocabulary

We need to start this module with a vocabulary review, since many tax-related terms are misused or misunderstood and I want us all to be on the same page.

What is a tax return?

Your tax return is the set of forms you file with the Internal Revenue Service or IRS each spring.

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It always includes Form 1040 and may include other forms as well.

Your tax return calculates your total income tax liability or tax burden for the year.

What is tax withholding and estimated tax?

By default, the IRS expects to receive regular tax payments throughout the calendar year from each taxpayer.

As a standard practice, employers withhold income tax from each of their employees' paychecks and send the money to the IRS on their behalf. This income tax withholding is reported on the annual tax return and compared with the total tax liability.

However, non-employees, such as self-employed people, fellowship recipients who don't have automatic tax withholding, and people with investment income, have the same responsibility to send regular tax payments to the IRS. They pay their income tax manually through the quarterly estimated tax system. The amount paid in estimated tax is reported on the annual tax return and compared with the total tax liability, just like withheld tax is.

Quarterly Estimated Tax
for Fellowship Recipients
A Personal Finance for PhDs Workshop

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If your grad student stipend is paid by a fellowship or training grant, income tax is not being withheld from your paychecks, and you want some help figuring out whether you're responsible for making quarterly estimated tax payments and if so in what amount, I recommend joining my other tax workshop, *Quarterly Estimated Tax for Fellowship Recipients*. You can join as an individual at PFforPhDs.com/qetax/, and I also license the workshop to universities at PFforPhDs.com/tax-workshops/.

What is a tax refund?

Finally, we have all the necessary components to define a tax refund.

On your tax return, you will compare the amount money that you had withheld and/or that you paid in estimated tax with your tax liability.

For most employees, the amount they had withheld is greater than their actual tax liability, so they receive a tax refund from the IRS, which is the income tax that they already paid being refunded to them. It's even possible some cases to receive more money from the IRS than one paid in during that tax year.

The reverse can also be true: Your tax liability can exceed the sum of what you had withheld and paid in estimated tax. If that happens, you'll pay the difference when you file your annual tax return or set up a payment plan with the IRS. This is a common occurrence for fellowship recipients whose income tax is not automatically withheld.

What is a tax return?

With that information, we see the purpose of the income tax return. We use it to calculate our income tax liability based on our taxable income and other factors and determine if we will receive an income tax refund or will owe additional income tax.

By the way, the deadline to file your tax return and pay your tax due for a calendar year is generally April 15 of the following year. There are some exceptions.

When April 15 falls on a weekend or holiday, the deadline is pushed back to the next business day. The tax year 2025 deadline is Wednesday, April 15, 2026.

Sometimes the IRS pushes back the filing and even payment deadline due to emergencies that occur during tax season, so affected individuals have extra time. For example, an extension was granted to everyone in 2020 and 2021 due to the COVID-19 pandemic, and in subsequent years extensions were given to residents of certain states or counties due to local weather-related disasters. If you hear about an extension being granted for residents of your area, you can check the IRS newsroom and your state tax agency for further information.

If you aren't ready to file your return by the deadline, you can file for an extension and get an extra six months to work on your return. However, your tax payment is still due by the original deadline.

Concepts

Now we can discuss the basic tax concepts that you'll need to know to prepare an accurate and optimized tax return with respect to your higher education income and expenses.

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I'm going to show you a simplified scheme that illustrates how money flows through Form 1040 to teach you a few basic concepts and terms. The illustration applies for what's called 'ordinary income' such as salaries and stipends. There are various side calculations you would need to make for investment or self-employment income that I am omitting.

What income is taxable?

Right off the bat, we have to understand what 'income' is for tax purposes. Not all money that hits your bank account is income for tax purposes, and sometimes you can have income for tax purposes that doesn't hit your bank account. Some people have income for tax purposes without paying any income tax.

"Start from the *assumption* that all of your income is taxable."

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I once heard a CPA put it this way (I'm paraphrasing): "You have to start from the assumption that all of your income is taxable. The purpose of your tax return is to tell the IRS that some of it is not taxable."

Not taxable:
Loans
Personal gifts
Etc.

Now, some types of income are not taxable right off the bat, such as loans and personal gifts. You don't need to account for these on your tax return.

(If you're thinking of the term gift tax, that is a tax that the giver pays, not the recipient.)

Taxable:
Salaries, Stipends,
Self-employment income,
Side hustle income, Hourly pay,
Rental income, Capital gains,
Dividends, Interest

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Other types of income that definitely qualify as income for tax purposes include but are not limited to salaries, stipends, self-employment income, side hustle income, hourly pay, rental income, capital gains, dividends, and interest.

Taxable

!=

Taxed

Now, there is a difference between your income being potentially taxable and actually being taxed. If your income is low enough, you may not have any income tax liability. Alternatively, if you can take lots of deductions and/or credits, you may not have any income tax liability.
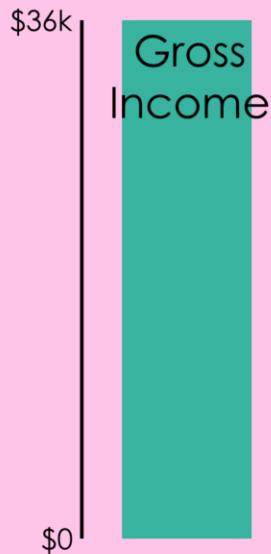
I'm going to use a running example through this section, which has been simplified to focus on just the concepts you need to understand for this workshop.

The example is for a single person with an ordinary income of $36,000, such as from a salary. All of this income is potentially taxable, and I'll show you how we calculate the tax.

A tax deduction makes a portion of your income tax-free.

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A tax deduction is an amount of money that you can subtract from your taxable income before calculating your tax due. It makes a portion of your income tax-free. There are two opportunities on your tax return to take deductions.

Deductions part 1:

Adjustments to income aka above-the-line deductions.

The first is called the adjustments to your income or the above-the-line deductions.

Deductions part 2:

The standard deduction or itemized deductions.

The second is when you either take the standard deduction or you itemize your deductions. You would elect to itemize only if your individually tracked deductions sum to greater than the standard deduction.

Adjustments to income

Your adjustments to income or above-the-line deductions reduce your taxable income and ultimately your tax liability.

Part II	Adjustments to Income	
11	Educator expenses	11
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12
13	Health savings account deduction. Attach Form 8889	13
14	Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here ☐	14
15	Deductible part of self-employment tax. Attach Schedule SE	15
16	Self-employed SEP, SIMPLE, and qualified plans	16
17	Self-employed health insurance deduction	17
18	Penalty on early withdrawal of savings	18
19a	Alimony paid	19a
b	Recipient's SSN	
c	Date of original divorce or separation agreement (see instructions):	
20	IRA deduction. If you are married filing separately and lived apart from your spouse for the entire year (see instructions), check here ☐	20
21	Student loan interest deduction	21
22	Reserved for future use	22
23	Archer MSA deduction	23
24	Other adjustments:	
a	Jury duty pay (see instructions)	24a
b	Deductible expenses related to income reported on line 8l from the rental of personal property engaged in for profit	24b
c	Nontaxable amount of the value of Olympic and Paralympic medals and USOC prize money reported on line 8m	24c
d	Reforestation amortization and expenses	24d
e	Repayment of supplemental unemployment benefits under the Trade Act of 1974	24e
f	Contributions to section 501(c)(18)(D) pension plans	24f
g	Contributions by certain chaplains to section 403(b) plans	24g
h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i
j	Housing deduction from Form 2555	24j
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k
z	Other adjustments. List type and amount:	24z
25	Total other adjustments. Add lines 24a through 24z	25
26	Add lines 11 through 23 and 25. These are your **adjustments to income**. Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26

Schedule 1 (Form 1040) 2025

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If you have any adjustments to income, you will delineate them on Form 1040 Schedule 1 in Part II.

Refer to the instructions for Form 1040 Schedule 1 for the complete details for adjustments to income, but I'll give you a few examples. Above-the-line deductions include student loan interest that you paid, contributions to a traditional IRA, contributions to a Health Savings Account, and part of what you paid in self-employment tax. All of those deductions are subject to caps and income limits.

Income	**1a**	Total amount from Form(s) W-2, box 1 (see instructions)	**1a**	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	**b**	Household employee wages not reported on Form(s) W-2	**1b**	
	c	Tip income not reported on line 1a (see instructions)	**1c**	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	**1d**	
	e	Taxable dependent care benefits from Form 2441, line 26	**1e**	
If you did not get a Form W-2, see instructions.	**f**	Employer-provided adoption benefits from Form 8839, line 31	**1f**	
	g	Wages from Form 8919, line 6	**1g**	
	h	Other earned income (see instructions). Enter type and amount: _____	**1h**	
	i	Nontaxable combat pay election (see instructions) . . . . **1i** ____		
	z	Add lines 1a through 1h	**1z**	
Attach Sch. B if required.	**2a**	Tax-exempt interest . . . **2a** ____ **b** Taxable interest	**2b**	
	3a	Qualified dividends . . . **3a** ____ **b** Ordinary dividends	**3b**	
	c	Check if your child's dividends are included in **1** ☐ Line 3a **2** ☐ Line 3b		
	4a	IRA distributions . . . . **4a** ____ **b** Taxable amount	**4b**	
	c	Check if (see instructions) . . . . . **1** ☐ Rollover **2** ☐ QCD **3** ☐ ____		
	5a	Pensions and annuities . . **5a** ____ **b** Taxable amount	**5b**	
	c	Check if (see instructions) . . . . . **1** ☐ Rollover **2** ☐ PSO **3** ☐ ____		
	6a	Social security benefits . . **6a** ____ **b** Taxable amount	**6b**	
	c	If you elect to use the lump-sum election method, check here (see instructions) . . . . . ☐		
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
	7a	Capital gain or (loss). Attach Schedule D if required	**7a**	
	b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss) ____		
	8	Additional income from Schedule 1, line 10	**8**	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	**9**	
	10	Adjustments to income from Schedule 1, line 26	**10**	
	11a	Subtract line 10 from line 9. This is your **adjusted gross income**	**11a**	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.   Cat. No. 11320B   Form **1040** (2025) Created 9/5/25

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The sum of your adjustments to income from Schedule 1 will be written into Form 1040 Line 10.

Income				
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.	1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
	b	Household employee wages not reported on Form(s) W-2	1b	
	c	Tip income not reported on line 1a (see instructions)	1c	
	d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
	e	Taxable dependent care benefits from Form 2441, line 26	1e	
	f	Employer-provided adoption benefits from Form 8839, line 31	1f	
	g	Wages from Form 8919, line 6	1g	
	h	Other earned income (see instructions). Enter type and amount:	1h	
	i	Nontaxable combat pay election (see instructions) 1i		
	z	Add lines 1a through 1h	1z	
Attach Sch. B if required.	2a	Tax-exempt interest 2a	b Taxable interest	2b	
	3a	Qualified dividends 3a	b Ordinary dividends	3b	
	c	Check if your child's dividends are included in 1 ☐ Line 3a 2 ☐ Line 3b		
	4a	IRA distributions 4a	b Taxable amount	4b	
	c	Check if (see instructions) 1 ☐ Rollover 2 ☐ QCD 3 ☐		
	5a	Pensions and annuities 5a	b Taxable amount	5b	
	c	Check if (see instructions) 1 ☐ Rollover 2 ☐ PSO 3 ☐		
	6a	Social security benefits 6a	b Taxable amount	6b	
	c	If you elect to use the lump-sum election method, check here (see instructions) ☐		
	d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here ☐		
	7a	Capital gain or (loss). Attach Schedule D if required	7a	
	b	Check if: ☐ Schedule D not required ☐ Includes child's capital gain or (loss)		
	8	Additional income from Schedule 1, line 10	8	
	9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your **total income**	9	
	10	Adjustments to income from Schedule 1, line 26	10	
	11a	Subtract line 10 from line 9. This is your **adjusted gross income**	11a	

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After you subtract your adjustments to income from your gross income, you have calculated your Adjusted Gross Income or AGI on Form 1040 Lines 11a and 11b.

MAGI = AGI +
Foreign earned income exclusion,
Foreign housing exclusion,
Foreign housing deduction,
Exclusion of income by bona fide residents of American Samoa, and
Exclusion of income by bona fide residents of Puerto Rico

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I need to take a sidebar here to define another term. At some points in this workshop you will hear the term modified adjusted gross income or MAGI. For most people, the AGI and MAGI are identical. The difference between the two with respect to your education tax benefits is that the MAGI adds back in a few of the exclusions from income that the AGI took, specifically the foreign earned income exclusion, foreign housing exclusion, foreign housing deduction, exclusion of income by bona fide residents of American Samoa, and exclusion of income by bona fide residents of Puerto Rico. You can read more about this in IRS Publication 970 Worksheets 2-1 and 3-1.
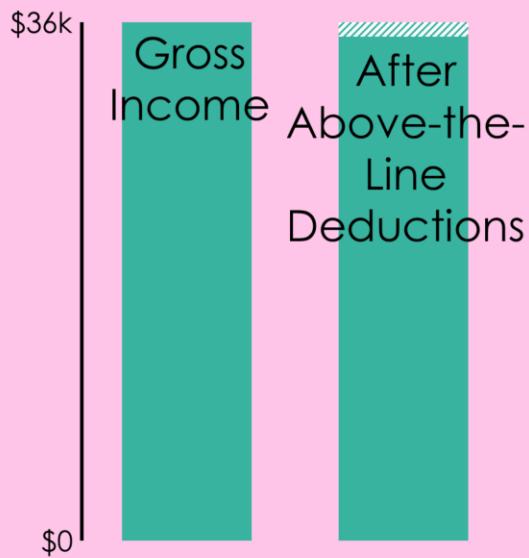
For our example person, let's say they have $1,000 in above-the-line deductions. We subtract that $1,000 from the potentially taxable income of $36,000, and their AGI is $35,000.

Standard or Itemized Deductions

Next, you either take the standard deduction or itemize your deductions.

The standard or itemized deduction goes on Form 1040 in Line 12.

The standard deduction for 2025 is $15,750 for a single person and $31,500 for an MFJ couple. These amounts were increased midway through 2025 with the passage of the One Big Beautiful Bill Act, so you may come across documentation from earlier in the year that lists lower amounts.

If you are a dependent, you may have a different standard deduction, so see the module titled "If You Were Under Age 24" for more information on that.

Again, taking a deduction means that you subtract the amount of the deduction from your taxable income, which reduces your taxable income and ultimately your tax liability.

Itemized deductions include:
Medical and dental expenses
State and local taxes paid
Interest paid on your home mortgage
Charitable giving
Etc.

I'll share a few more details about itemizing deductions now.

In 2022, only 10% of households overall itemized their deductions. Itemizers tend to be higher income; only about 2% of households with under $30,000 of income and 4% of households with $30-50,000 of income itemized in 2022.

[Reference: https://taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them]

Remember, you would only itemize your deductions if their sum exceeds the standard deduction for your household.

Types of expenses that can be itemized include but are not limited to:
- Medical and dental expenses exceeding 7.5% of your AGI
- State and local taxes paid, such as income tax or sales tax and property tax, limited to $40,000 following the passage of the One Big Beautiful Bill Act in 2025
- Interest paid on your home mortgage, subject to limits
- Charitable giving

If you have expenses in one or more of the categories I just mentioned that sum to an amount that could possibly match or exceed your standard deduction, you should look into itemizing your deductions. If you itemize your deductions, you do so by filling out Form 1040 Schedule A.

The key point to remember is that deductions reduce your taxable income.
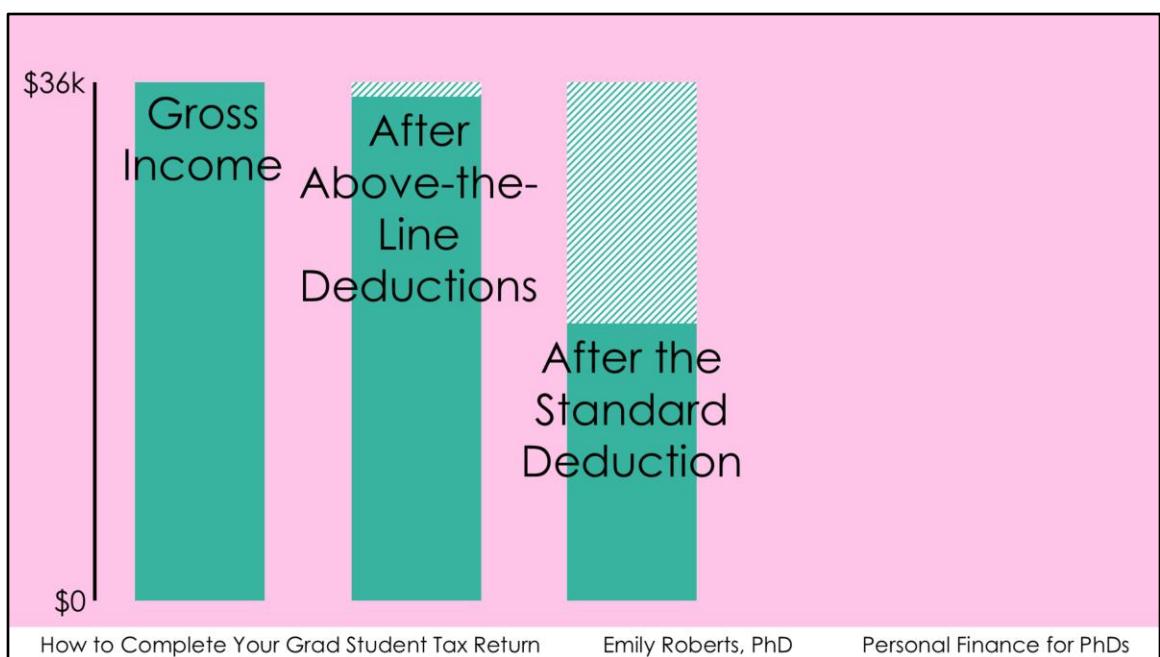
Our example person takes the standard deduction, so we simply subtract $15,750 from their AGI of $35,000 to get a taxable income of $19,250. This is the income we actually use when we initially calculate tax liability.

Form 1040 (2025)				**Page 2**

Tax and Credits	**11b**	Amount from line 11a (adjusted gross income)	**11b**	
	12a	Someone can claim ☐ You as a dependent ☐ Your spouse as a dependent		
	b	☐ Spouse itemizes on a separate return **c** ☐ You were a dual-status alien		
	d	**You:** ☐ Were born before January 2, 1961 ☐ Are blind		
		Spouse: ☐ Was born before January 2, 1961 ☐ Is blind		
Standard deduction for—	**e**	**Standard deduction or itemized deductions** (from Schedule A)	**12e**	
• Single or Married filing separately, $15,750	**13a**	Qualified business income deduction from Form 8995 or Form 8995-A	**13a**	
	b	Additional deductions from Schedule 1-A, line 38	**13b**	
	14	Add lines 12e, 13a, and 13b	**14**	
• Married filing jointly or Qualifying surviving spouse, $31,500	**15**	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your **taxable income**	**15**	
	16	**Tax** (see instructions). Check if any from Form(s): **1** ☐ 8814 **2** ☐ 4972 **3** ☐ _____	**16**	
• Head of household, $23,625	**17**	Amount from Schedule 2, line 3	**17**	
	18	Add lines 16 and 17	**18**	
• If you checked a box on line 12a, 12b, 12c, or 12d, see inst.	**19**	Child tax credit or credit for other dependents from Schedule 8812	**19**	
	20	Amount from Schedule 3, line 8	**20**	
	21	Add lines 19 and 20	**21**	
	22	Subtract line 21 from line 18. If zero or less, enter -0-	**22**	
	23	Other taxes, including self-employment tax, from Schedule 2, line 21	**23**	
	24	Add lines 22 and 23. This is your **total tax**	**24**	

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When you finish taking all your deductions, you have calculated an amount of income that will be taxed on Form 1040 Line 15.

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It's time to apply the tax brackets to the amount on Form 1040 Line 15.

We have a graduated or progressive tax system that taxes higher incomes at higher rates. You have already determined that a large chunk of your income is tax-free due to your various deductions. Above that tax-free amount, apply the tax brackets.

Tax rate	Single	Married, filing jointly
10%	$0 to 11,925	$0 to 23,850
12%	$11,926 to 48,475	$23,851 to 96,950
22%	$48,476 to 103,350	$96,951 to 206,700
24%	$103,351 to 197,300	$206,701 to 394,600
32%	$197,301 to 250,525	$394,601 to 501,050
35%	$250,526 to 626,350	$501,051 to 751,600
37%	Over $626,350	Over $751,600

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The numbers I'm citing next are for a single individual.

The lowest marginal tax bracket is 10% and it goes from $0 to 11,925.

The next marginal tax bracket is 12% and it goes from $11,926 to 48,475.

The marginal tax bracket after that is 22% and it goes from $48,476 to 103,350. And there are higher tax brackets as well, up to 37%.
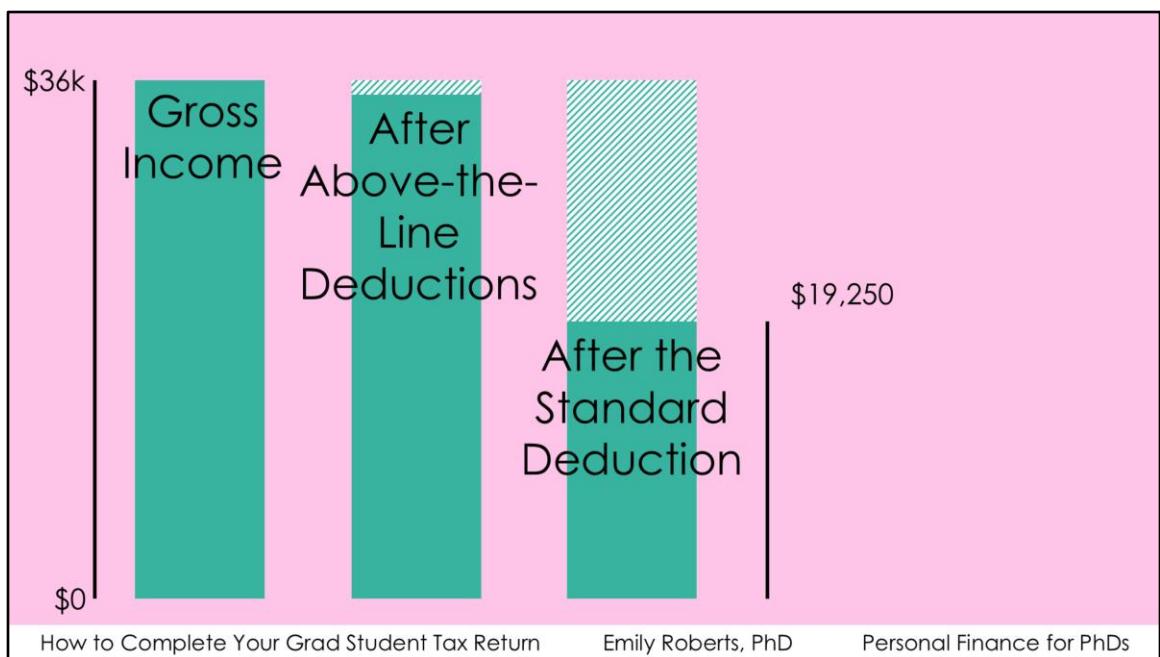
Our example person has $19,250 of taxable income,

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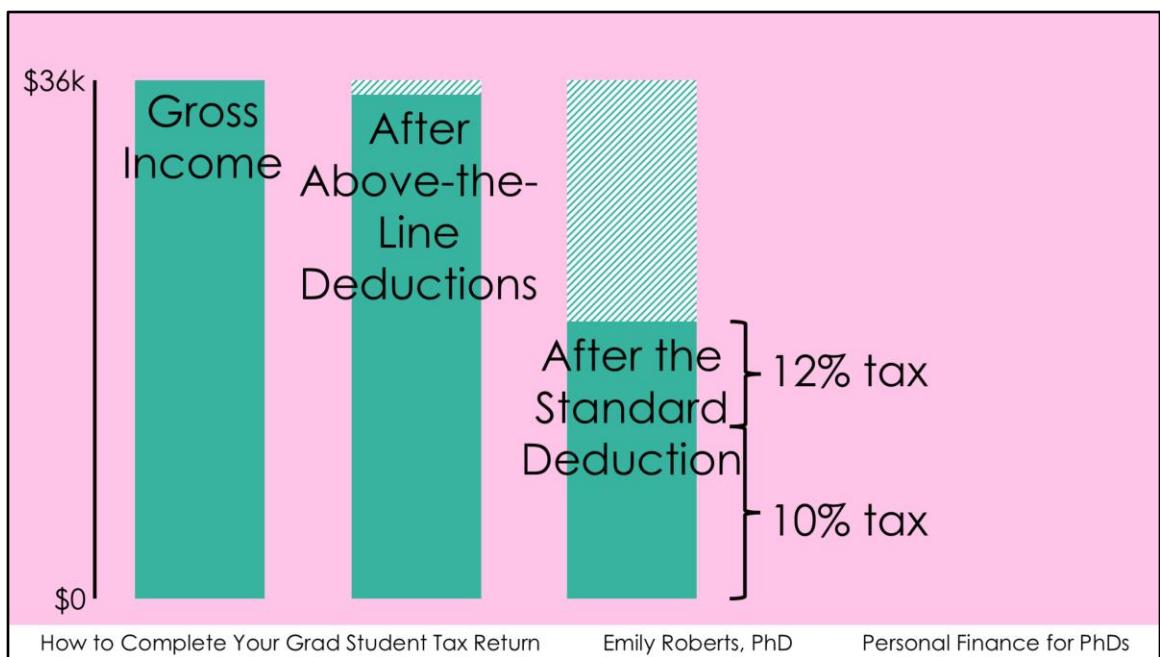
which falls across the 10% and 12% tax brackets.

That means that $11,925 of their income is applied to the 10% marginal tax bracket.

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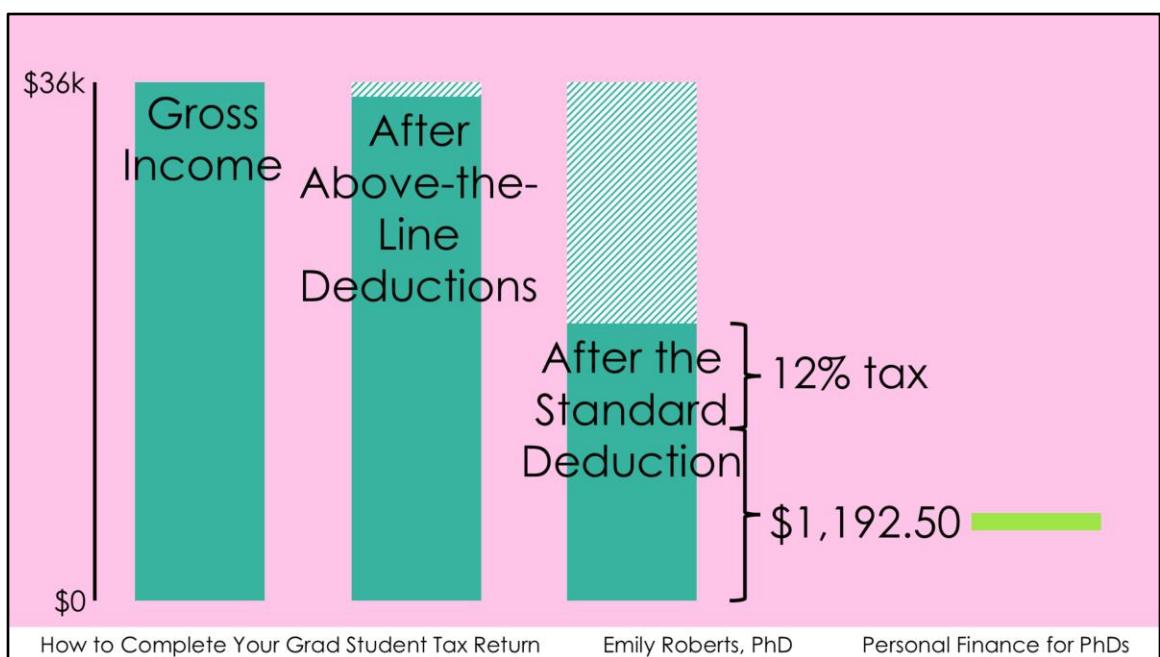
10% of $11,925 is $1,192.50, so this person owes $1,192.50 in tax from this first tax bracket.

They have $7,325 in remaining taxable income, which is applied to the 12% marginal tax bracket.
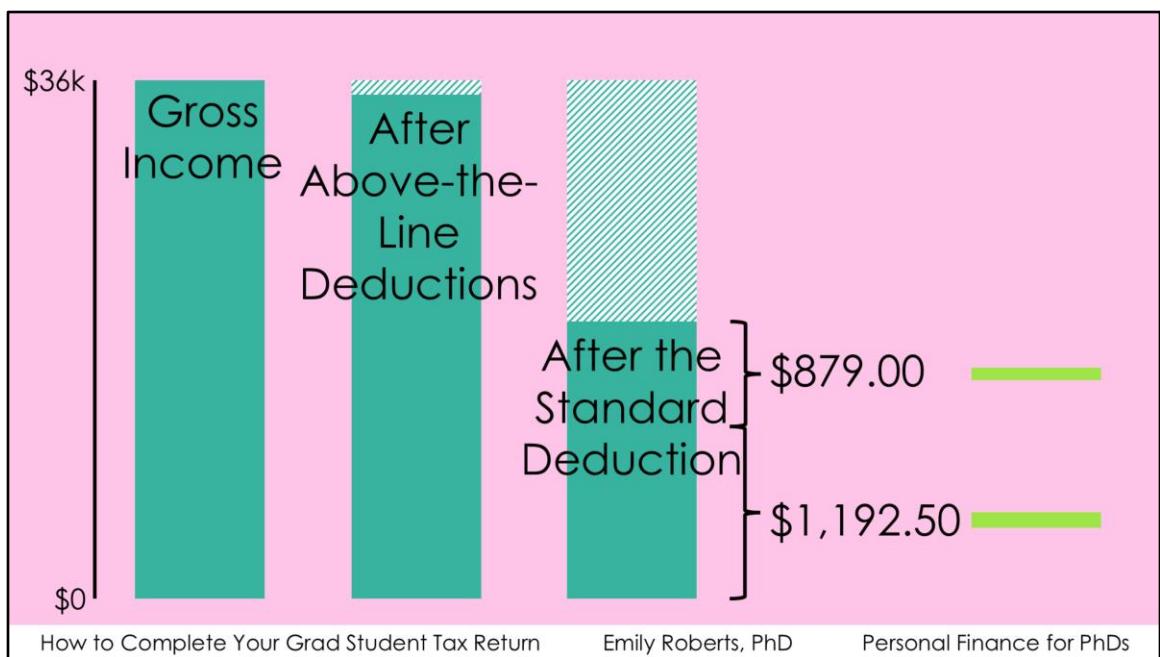
12% of $7,325 is $879, so this person owes $879 in tax from this second tax bracket.
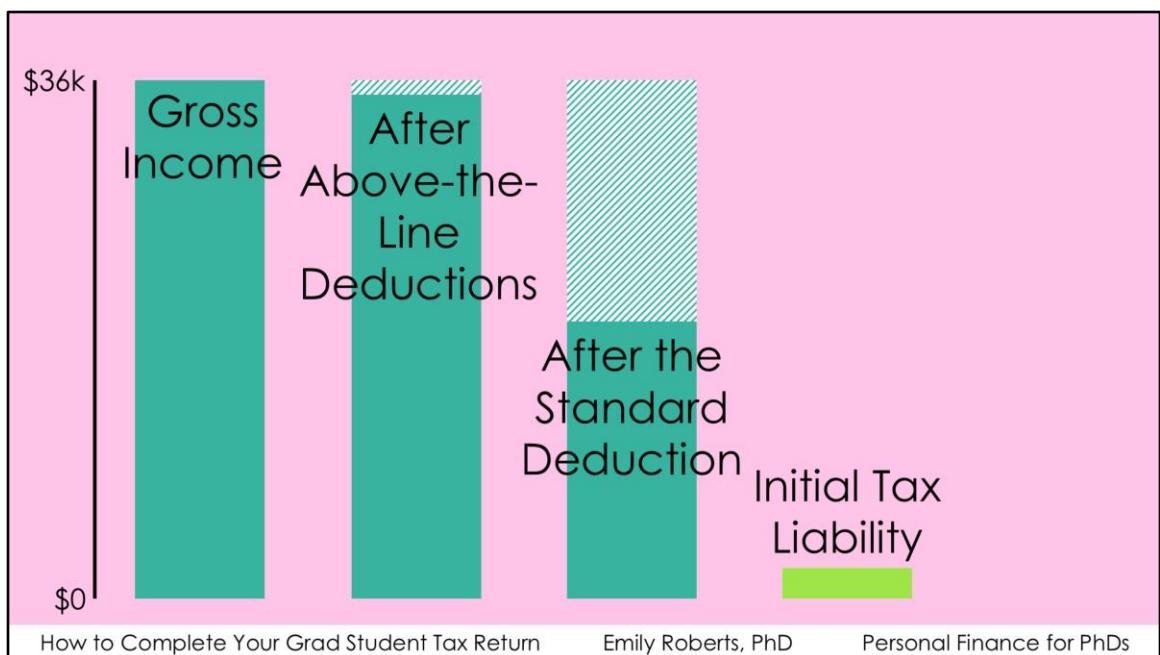
We've applied all of this person's income to the tax brackets, so the higher rates don't apply to them. We have calculated their initial tax liability to be $2,071.50.

Your calculated tax goes into Form 1040 Line 16.

On your tax return, after you initially calculate your tax liability based on your after-deductions income, you get to apply your tax credits.

A tax credit directly reduces your tax liability. For example, if you qualified for a $1,000 credit, you would directly subtract $1,000 from the amount of tax you initially calculated that you owe.

Commonly claimed credits are the Child Tax Credit, the Child and Dependent Care Credit, the Earned Income Tax Credit, and the Saver's Credit.

There are two higher education-related tax credits, the American Opportunity Tax Credit and the Lifetime Learning Credit, which I discuss in the modules "If You Are Class of 2025 (Bachelor's)" and "Higher Education Tax Benefits," respectively. There are many other credits available as well.

If a credit is non-refundable, that means that it can take your tax liability down to zero but no further. If a credit is refundable, that means it can take your tax liability negative, as in, the IRS will give you money.

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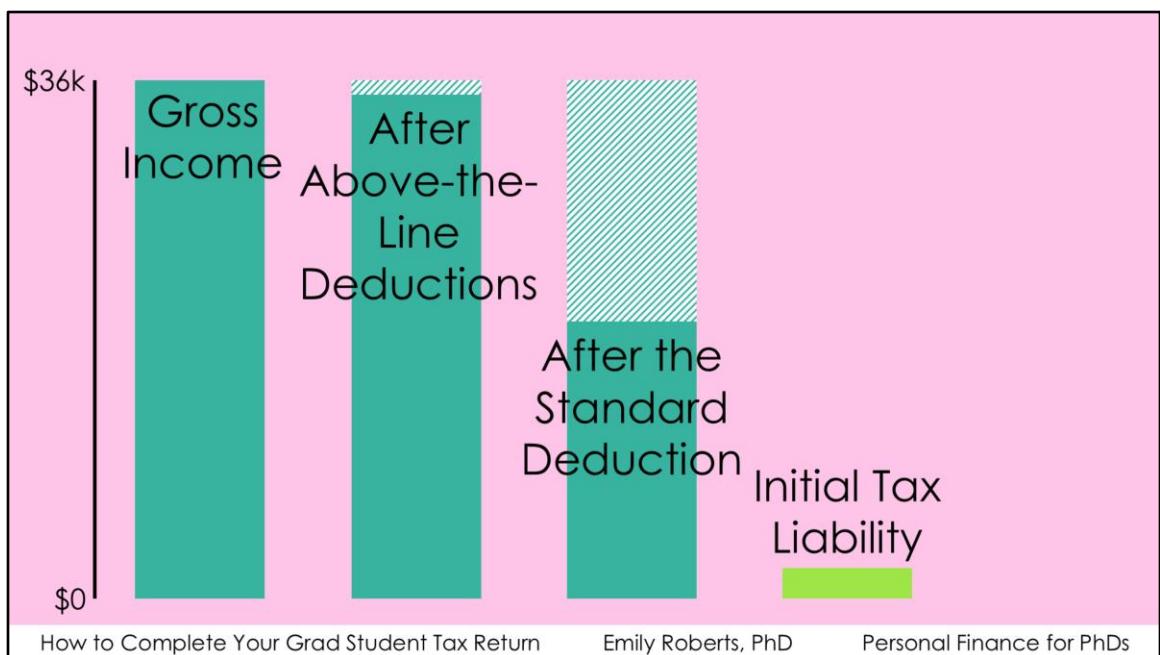
Let's say that our example person is eligible for a $1,000 tax credit. We take their initial tax liability of $2,071.50 and subtract the credit of $1,000,
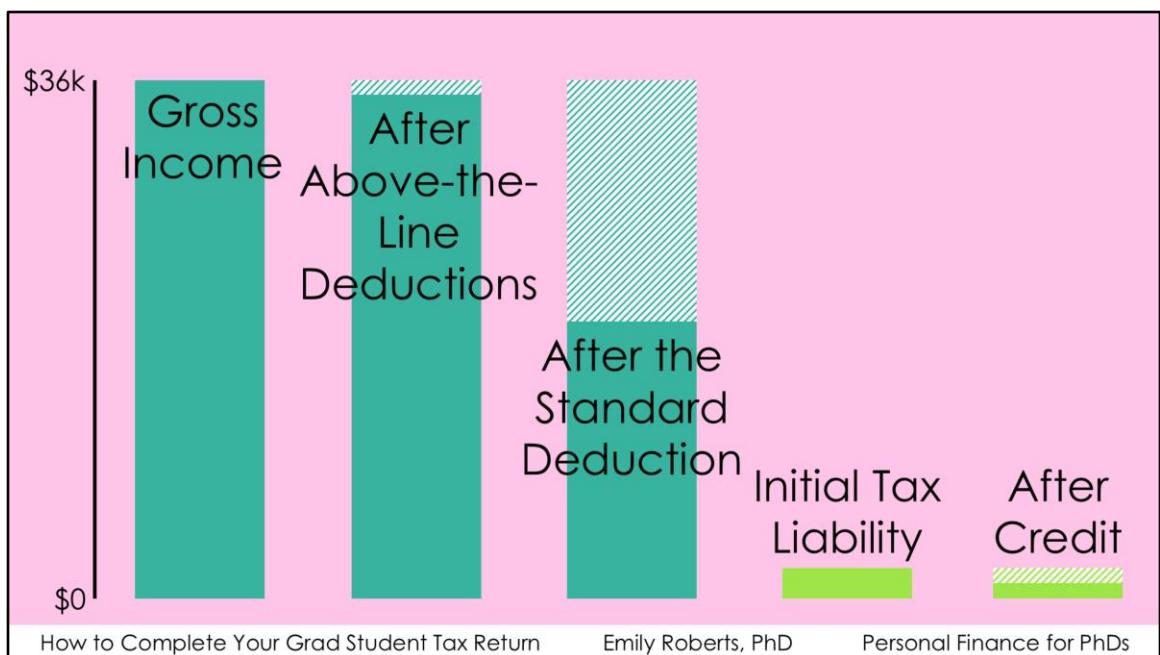
so their final tax liability is $1,071.50.

I'll quickly review the concepts we just went over because they will come up again later in the workshop.

1) A tax return is the set of forms you file with the IRS each spring.

2) A tax refund is the excess money you sent the IRS throughout the year that is refunded to you after you file your return.

3) You must default to considering that all of your income is taxable and use your tax return to prove that some of it is not.

4) A tax deduction makes some of your income tax-free, reducing the amount of taxable income from which your tax liability is calculated.

5) A tax credit directly reduces your tax liability.

6) The marginal income tax brackets tax higher incomes at higher rates. What is referred to as "your" marginal income tax bracket is the tax rate applied to the last dollar of your income. Our example person is in the 12% marginal tax bracket.

You can see that for our example person a $1,000 tax credit reduced their tax by $1,000, but a $1,000 tax deduction reduced their tax by $120 because they are in the 12% tax bracket.