



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE ACADEMY

06 June 2018

MEMORANDUM FOR: CADETS AND PARENTS OF CADETS

FROM: HQ USAFA/FMF

SUBJECT: Cadet Scholarship and/or Educational Investment Plan Proceeds

1. The United States Air Force Academy (USAFA) Financial Management (FM) Office may not accept cadet scholarships containing restrictions. Restrictions are any condition or limitation an agency places on the use of their scholarship funds. Some examples include “must be used for tuition, room and/or board”, “student is required to maintain a specific grade point average (GPA)”, “scholarship funds will be paid back if cadet disenrolls”, etc. Cadet scholarships without restrictions or silent on restrictions will continue to be accepted. Educational investment funds (e.g., 529 plans) may not be accepted due to their federal and state tax restrictions and, based on the specific plan, may have other restrictions on how the funds are used. Normally a university financial aid office monitors scholarships and investment plan proceeds; however, USAFA is not eligible to participate in the student aid program and does not have a financial aid office. We do not charge for tuition, room or board like other universities or have the authority to maintain separate billing and receiving accounts required to monitor the restrictions levied by law. The following will assist with scholarship and/or investment plan questions.

a. Scholarships: Scholarships should be payable directly to the cadet. When the agency is unable to make payment directly to the cadet, the scholarship may be accepted by FM for credit to the cadet’s pay account provided there are no restrictions on the scholarship and the check is payable to the U.S. Treasury. Scholarships silent on restrictions will be treated as non-restrictive and accepted. Scholarships accepted by FM are never refunded to the agency granting the scholarship, even if the cadet disenrolls. Checks shall be made payable to “U.S. Treasury” and mailed to HQ USAFA/FMF, 2304 Cadet Drive, Suite 2200, USAF Academy, CO 80840-5035. The cadet’s full name and social security number must be included in the memo area of the check or on an attached memo.

b. Investment Plans: The individual owner or administrator of the educational investment plan determines the valid use of the funds based on specific fund requirements and any state, federal and/or Internal Revenue Service (IRS) restrictions. The owner/administrator shall consult their financial advisor, tax advisor or legal advisor to ensure the specific fund rules are followed and if there are procedures for providing proceeds directly to the cadet. Investment plan proceeds will not be accepted by FM, and if received, shall be returned to the originator. Based on information provided by the IRS, it is our understanding that the Military Family Tax Relief Act of 2003 provides that attendance at a U.S. military academy will be treated as a scholarship for purposes of the 10% penalty on nonqualified withdrawals from a 529 plan or Coverdell ESA and that the value of the no-cost education (as determined under the U.S. military code) can be withdrawn penalty-free from a 529 plan or Coverdell ESA, although the earnings portion will continue to be taxable. Accordingly, parents and financial planners have requested the Cost of Education (CoE) for USAFA. Please understand that we are not attempting, and are not authorized, to provide tax advice; we are simply providing information concerning the USAF Academy CoE for recent Fiscal Years. You are advised to consult your own tax advisors regarding permissible uses of this information. The USAFA CoE amount may be exempt from the 10% additional tax IAW IRS rules (see IRS Publication 970). The CoE at a Service Academy is defined in DoDD 1332.23 as those costs that are attributable directly to educating a person at a service academy under regulations prescribed by the Secretary of the Military Department concerned and approved by the Office of the Assistant Secretary of Defense (Force Management & Personnel), Office of the Assistant Secretary of Defense (Force Management and Personnel) and the Office of the Assistant Secretary of Defense (Comptroller). Such costs include a reasonable charge for the provided education, books, supplies, room, board, transportation, and other miscellaneous items furnished at government expense. Excluded are the costs for cadet pay and allowances, uniforms, military training, and support for nonacademic military operations. The following is the USAFA CoE for the Fiscal Year (FY) indicated.

FY17 \$65,639 - 1 October 2016 - 30 September 2017
 FY16 \$58,924 - 1 October 2015 - 30 September 2016
 FY15 \$50,335 - 1 October 2014 - 30 September 2015
 FY14 \$49,294 - 1 October 2013 - 30 September 2014

2. USAFA is prohibited by law (10 U.S.C. 9360) from charging cadets for tuition, room or board and does not issue IRS Form 1098-T, Tuition Statement. Any tax consequence resulting from receipt of scholarships and/or educational investment plan proceeds is the responsibility of the cadet. Additional information on educational benefits is available on the IRS web site; see IRS Publication 970, Tax Benefits for Education.

3. Tuition, room, board and cadet income and expenses at USAFA:

a. USAFA cannot charge for tuition, room or board in accordance with 10 U.S.C. 9360. Tuition, room and board are provided to cadets without charge.

b. Cadet monthly base pay is \$1087.80 effective 1 January 2018. Cadet pay is equal to 35% of a 2nd Lieutenant pay in accordance with 37 U.S.C. 203(c).

c. Cadet **estimated** expenses for Academic Year 2018/2019 (1 Jun 18-31 May 19) are:

<u>Expense</u>	<u>Freshman</u>	<u>Sophomore</u>	<u>Junior</u>	<u>Senior</u>
Uniforms	4,175	150	260	500
Computer/Maintenance	2,096	96	96	88
Personal Service Fees	743	113	118	311
Arts and Sports Fees	180	180	180	180
Media and Textbooks	<u>1,172</u>	<u>1,010</u>	<u>1,010</u>	<u>1,124</u>
Total	\$8,262	\$1,549	\$1,664	\$2,203

Definitions:

Personal service fees include barber, tailor, linen, dry cleaning and laundry.

Arts and sports fees include reduced tickets to shows and sporting events.

Media includes basic training yearbook and annual yearbook.

NOTE: Exact expenses are known only by the individual cadet based on their specific circumstances. The amounts shown above are only an estimate. The individual cadet receives a monthly leave and earnings statement (LES) which provides information on actual income and those expenses deducted from their pay.

4. The section of US Code that authorizes TSP participation applies only to those members who are paid under 37 USC 204 (only covers active duty and reserve members). Cadets are paid under a separate area of US Code (37 USC 203) and are therefore ineligible to participate in TSP.

5. Please e-mail USAFAM.FMF.CadetPay@us.af.mil if you have questions on the information contained in this memorandum which supersedes Memorandum 1 November 2017, same subject.

ALEXIS M. DURM, DAFC
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