

Taxability of Graduate Tuition Remission for Employees

Rowan University offers employees the opportunity to pursue higher education free of charge. This exceptional benefit is offered for both undergraduate and graduate coursework. While undergraduate tuition remission is generally not taxed, the Internal Revenue Service has ruled that the graduate tuition benefit is taxable income.

WHEN IS TUITION REMISSION TAXED?

In general, IRS regulations consider anything of value provided to an employee by an employer to be a form of compensation. All compensation must be reported as taxable wages and is subject to income tax withholding, unless specifically excluded by the Internal Revenue Code. Under section 117(d) of the Internal Revenue Code, educational institutions offering a full reduction of tuition charges to employees, their spouses and dependent children for undergraduate coursework may exclude the value of this education from their employees' taxable wages. The exclusion under this section *does not extend to graduate coursework*. Section 127 of the Code allows all employers, whether or not they are an educational institution, to provide their employees with educational assistance for both undergraduate and graduate work. Employers may provide each employee with up to \$5,250 of educational assistance per year on a tax-free basis. The tuition remission that the University offers employees for graduate-level education is eligible for this exclusion. The Internal Revenue Code requires that educational assistance in excess of the \$5,250 exclusion must be added to employees' taxable wages and employment taxes must be withheld.

WHAT HAPPENS TO THE TAXES THAT ARE WITHHELD?

The additional taxable income and taxes withheld are reported on the W-2 form. The University is required to issue W-2 forms to employees by January 31st to provide the information necessary for completing their tax returns. Educational assistance in excess of the excludable amount is subject to federal, Social Security and Medicare taxes. The table below shows how the taxable tuition remission and taxes are reported on the W-2 Form for a tuition benefit worth \$5,000 over the \$5,250 exclusion.

Type of Tax	W-2 Taxable Wages	W-2 Taxes Withheld	Percent
Federal Income Tax	Box 1 \$5,000.00	Box 2 \$1,250.00	25% Supplemental rate
Social Security	Box 3 \$5,000.00	Box 4 \$310.00	6.2% Up to \$5,840.40/year
Medicare	Box 5 \$5,000.00	Box 6 \$72.50	1.45 % Unlimited
Total Taxes		\$1,632.50	32.65%

Example: An employee who has received \$10,250 in tuition remission benefits for graduate-level coursework would have \$5,000 of additional taxable income reported in boxes 1, 3 and 5 of his/her W-2 (\$10,250 tuition remission received less \$5,250 exclusion) at the end of the year.

Federal income tax withheld for the year (reported in box 2) would be \$1,250 (\$5,000 additional taxable wages * 25% withholding rate) more than the amount withheld against wages alone. Social Security tax withheld for the year (reported in box 4) would be \$310 (\$5,000 additional taxable wages * 6.2% tax rate) more than the amount withheld against wages alone, and Medicare tax withheld for the year (reported in box 6) would be \$72.50 (\$5,000 additional taxable wages * 1.45% tax rate) more than the amount withheld against wages alone.

The additional \$1,632.50 in taxes (\$1,250 federal + \$310 Social Security + \$72.50 Medicare) due on the additional income must be withheld from the employee's paychecks.