

Educational Benefits Taxation

Educational benefits received by a University employee, his/her spouse, and/or child(ren) may be taxable to the employee.

Processing

For those educational benefits which are taxable, Federal, State, and Social Security taxes will be withheld from the employee's payroll checks at the end of each semester in which the educational benefit was received. Taxes will be withheld over multiple pay periods and the employee will be notified by email in advance of the taxation.

Course/Type	Employee	Dependent Spouse/Child
Undergraduate	Non-taxable	Non-taxable ²
Graduate < \$5,250 in year	Non-taxable	Taxable ³
Graduate > \$5,250 in year	Taxable ¹	Taxable ³

¹An exception may apply in limited cases, if the education qualifies as a working condition fringe benefit as outlined by IRC §§ 132 and 162.

²A child that is **NOT** an IRS tax dependent is subject to taxation.

³An exception may apply in limited cases, if the student is a graduate teaching or research assistant as outlined by IRC § 117(d)(5).

Educational Assistance Programs – IRC §127 (employee only)

The term “educational assistance” means the payment, by an employer, of expenses incurred by or on behalf of an **employee for education of the employee** (including, but not limited to, tuition, fees, and similar payments, books, supplies, and equipment). The maximum amount of educational assistance that an employee can receive tax-free during any calendar year is **\$5,250**. The excess over this amount is includable in compensation and subject to tax withholding, unless another exclusion applies, such as the working condition fringe benefit. For purposes of this \$5,250 limit, the employee must take into account all reimbursements received from employers for educational assistance, as well as the fair market value of all educational assistance paid or provided directly by the employer.

Working Condition Fringe Benefit – *IRC §132(d) (employee only)*

To qualify for the working condition fringe benefit exclusion as outlined by *IRC §132(d)*, the educational benefit must:

- Be required by the employer or the law to keep the employee's present salary, status, or job **AND** serve a bona fide business purpose for the employer; **OR**
- Maintain or improve skills needed for the employee's current job.

Even if one of the above criteria has been met, the benefits may not be excluded from taxable income, if such benefits are:

- Needed to meet the minimum educational requirements of the employee's current job; **OR**
- Part of a program of study that will qualify the individual for a new trade or business, even if s/he has no plans to enter that trade or business.

IRC §§ 132 & 162; Reg. §1.162-5; [IRS Publication 970](#) pages 59-65 "Qualifying Work-Related Education"

Tuition Reduction – *IRC §117(d)*

Tuition reductions provided by the University to eligible employees and/or dependents for **undergraduate** level education, will generally qualify as **tax-free** scholarships.

A tuition reduction for **graduate** level education will qualify for exclusion only if the student receiving the benefit is performing teaching or research activities for the University. *IRC §117(d)(5)*

IRS Tax Dependent

An "**IRS tax dependent**" is a biological, step, eligible foster, or adopted child of the employee. *IRC §152(f)(1)*

In addition to meeting the criteria outlined in the preceding sentence, the child must meet the following criteria as outlined in *IRC §152(c)*:

- Be under age 19 as of the close of the calendar year in which the taxable year of the taxpayer begins OR a student under age 24 as of the close of such calendar year,
- Reside with the taxpayer for more than half the taxable year,
- Not have filed a joint return with spouse (other than only for a claim of refund), and
- Not have provided more than one-half of his/her own support.

Special Rule for Divorced Parents, etc.

For purposes of the exclusion outlined under *IRC §117(d)*, if a child receives over one-half of his/her support during the year from his/her parents-

- Who are divorced or legally separated under a decree of divorce or separate maintenance,
- Who are separated under a written separation agreement, or
- Who live apart at all times during the last 6 months of the calendar year, and
- The child is in custody of 1 or both of the parents for more than half of the calendar year,

Then the child shall be treated as the dependent of both parents. *IRC §§ 132(h)(2)(B) & 152(e)*

A child is required to be an IRS tax dependent to receive the exclusion from taxation. For additional information on the IRS definition of tax dependent, refer to [IRS Publication 501](#).