

Taxability of Graduate Tuition Remission for Employees

Florida Institute of Technology 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 graduate tuition benefit is taxable income. Additionally, any degree for a dependent is taxed. It is important that you understand how this affects your income and your paycheck prior to enrolling in courses.

When is Tuition Remission Taxed?

In general, the 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 at the time the benefit is given and is subject to income tax withholding. Few exceptions to this rule are allowed, and the IRS must specifically state the exclusion in 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 employee's taxable wages. But this exclusion does not extend to graduate coursework nor does it extend to an employee's spouse or dependents' graduate coursework.

Section 127 of the Code states that all graduate coursework will be taxed after \$5,250 of educational assistance is given per employee per calendar year. At that time, any tuition value above the \$5,250 exclusion will be added as compensation to the employee's paycheck and taxed accordingly.

What happens to the taxes that are withheld?

The additional taxable income and taxes are withheld each paycheck and remitted to the IRS at the close of each payroll. They are also reported on the W-2 form at year-end. 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 remission and taxes are reported on the W-2 form. This is for example purposes only, and assumes 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	5,000	\$ 1,100	22%
Social Security	5,000	\$ 310	6.2%
Medicare	5,000	\$ 72.50	1.45%
TOTAL		\$ 1,482.50	

How is the taxable benefit determined?

Each semester or online session, Human Resources receives a report indicating the total dollar amount of tuition remission applied to the employee's student record for graduate-level education. If the amount received by an employee exceeds the annual excludable amount of \$5,250, the excess must be added to the employee's taxable wages during the semester in which they are taking the class. The increase in taxable wages also increases the taxes withheld and reduces net pay.

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The table below shows how the taxable remission would affect an employee's paycheck and net income. This is for example purposes only, and assumes a tuition benefit worth \$5,000 over the \$5,250 exclusion.

EXAMPLES:

Example #1- Gross pay \$2,000- assuming employee has received less than \$5,250 in tuition remission benefits. Total taxable amount of benefits is 0.

Wages	\$2,000
Tuition	<u>N/A</u>
Total Wages	\$2,000
Fed W/H	\$168.26
SS W/H	\$124.00
Medicare W/H	<u>\$29.00</u>
Total Tax W/H	\$321.26*
Net Pay	<u>\$1,678.74</u>

Example #2- Gross pay \$2,000- assuming individual has received \$11,250 in tuition remission benefits. Total taxable amount of benefit is \$6,000 to have tax withheld over 6 pay periods.

Wages	\$2,000
Tuition	<u>\$1,000</u>
Total Wages	\$3,000
Fed W/H	\$388.26
SS W/H	\$186.00
Medicare W/H	<u>\$43.50</u>
Total Tax W/H	\$617.76*
Net Pay	<u>\$1,382.24</u>

*Examples assume there are no additional withholdings, such as benefits, 403(b), etc.

When are the taxes withheld from my paycheck?

To ease the impact of this additional income tax withholding, the benefit will be spread out evenly during the respective semester or session across a set number of consecutive paychecks received, either three payrolls for online classes or six for campus classes.

All employees are encouraged to track their tuition remission benefit for the year and plan accordingly.

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Frequently Asked Questions

Who should I contact with questions regarding tuition remission (TR)?

For eligibility questions, application for and approval of TR please call the Office of Human Resources at (321) 674-8100 or send an email to hr@fit.edu.

For questions regarding the timing and amount of TR credits applied to your student account, please call Office of Financial Aid at (321) 674-8070.

For questions regarding graduate-level tuition benefits and taxable wages, please call the Office of Human Resources at (321) 674-8100 or send an email to hr@fit.edu. Additional support on taxability can be found by contacting the Payroll and Tax Manager at payroll@fit.edu.

What courses/charges make up the amount of graduate-level tuition remission reported to Payroll? What if there is a difference between charged applied and amount taxed on my paycheck?

You may view the details of your student account online using PAWS. Any changes or corrections to your tuition remission charges must be processed by the Office of Financial Aid. Please call them directly at (321) 674-8070.

Are undergraduate-level courses counted towards the \$5,250 annual exclusion? What if they are undergraduate courses taken by a student in pursuit of a graduate degree?

Yes. All coursework taken by a graduate student, regardless of the course level, counts toward the annual exclusion as defined by section 127 of the Internal Revenue Code.

If my course-work is job related, and may qualify as a “working-condition fringe benefit”, why can’t I be exempt from tax withholdings?

The IRS’ position is that the value of job-related graduate tuition reductions and/or waivers by colleges and universities does not qualify as working condition fringe benefits because the tax treatment of this item is addressed elsewhere in the tax code. [§ 117 (d) or § 127] For this reason, the University may not exclude the value of the graduate tuition reduction or waiver in excess of the \$5,250 limit from your gross income.

If I add or drop a course, how will this affect my paycheck?

Withholdings are based on the value of the remission applied by Financial Aid at the beginning of the semester/term. If Florida Tech has already processed payroll withholdings and your enrollment status changes you will need to get a refund on your individual tax return directly from the IRS during your annual filing.

Can I spread the collection of the additional tax withholding beyond the scheduled timeframe?

No. All income is considered taxable when the benefit is received by the employee. Therefore, the University is required to withhold and remit the taxes in the semester or session in which the benefit is received.

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Can I delay the start of the additional tax withholding to a future paycheck?

No. Taxes on your graduate coursework must be recorded and collected by the end of the semester or session in which the benefit is reported. Employees should plan ahead so they are prepared.

Can I pay these taxes directly to the University or IRS rather than have them withheld from my paycheck?

No. The IRS does not permit the University to accept direct payments from an employee towards income tax withholding. We are required to withhold from the employee's paychecks.

Can the University record the additional taxable income on my W-2 but not withhold any additional taxes? I will pay them myself when I file my return.

No. Educational Assistance is not a benefit that can be excluded from payroll taxes and must be reported and paid at the time the benefit is received.

Why is the federal tax withholding rate so high? Can I change the withholding rate?

Income earned in addition to your regular salary is considered supplemental. The IRS defines a flat supplemental tax withholding rate set at the middle tax rate of the IRS graduated tax tables. This is currently set to 22%. We cannot change the rate of withholding and review the rates in each year against the published IRS tax tables.

If you feel that your total federal income tax withholding for the year will exceed your tax liability, you may submit a new W-4 form to the Office of Human Resources changing the number of exemptions you claim for your regular salary. Please see IRS Publication 919 for instructions on how to estimate your income tax liability or consult your tax advisor for further guidance.

If I'm planning to take classes year round, why can't the University estimate the amount of additional income I will incur and spread it across the entire year, reducing the amount of additional tax withheld from each check?

Graduate tuition remission becomes taxable when the benefit is received, which is at the beginning of each course taken. Therefore, a taxable event isn't triggered until you start the class/course and no additional income can be reported until that occurs.

Why are the withholding amounts always higher at the end of the year, when I need the money the most?

Tuition remission you receive at the start of the calendar year falls under the \$5,250 exclusion and is not taxable. Once you exceed that amount, every dollar of the graduate remission is taxable. If you are taking graduate courses throughout the year, this means that the additional taxes will always occur in the latter part of the year, AFTER the exclusion runs out. Employees receiving this taxable benefit should plan accordingly for the decrease in net pay that will occur once the additional taxes are withheld.

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Who should I contact if I have taken classes but not received the tuition remission credit on my student account?

Please contact the Office of Human Resources at (321) 674-8100 or via email at hr@fit.edu. The Benefits Representative in charge of tuition remission will be able to tell you whether your forms have been completed and processed. If the TR forms have been processed by HR but has not yet appeared in your student account, please contact the Office of Financial Aid at (321) 674-8070.

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