

Valparaiso University

Taxability of Graduate Tuition Remission/Exchange for Employees

Valparaiso University provides tuition remission/exchange as an educational benefit for employees and their dependents as recognition of its commitment to higher education. For a detailed explanation of eligibility and requirements, please refer to the policy on the General Counsel's webpage under Policies Related to Faculty and Staff at <http://www.valpo.edu/general-counsel/files/2015/12/Tuition-Remission-Change-Program-Policy.pdf>.

When is tuition remission taxed?

Per the Internal Revenue Service (IRS), you must generally include in gross income everything you receive of value from your employer. In addition to wages, salaries, stipends, and the value of gifts, this includes other forms of compensation such as fringe benefits. Fringe benefits are included in your income as compensation unless you pay fair market value for them or the law specifically excludes them. Tuition remission/exchange is classified as a fringe benefit. As the employee, you are considered the recipient of a fringe benefit even if it is given to another person, such as your dependent.

Internal Revenue Code (IRC) Section 117(d) allows the exclusion from gross income of undergraduate tuition remission/exchange to employees and their dependents from the university. The exclusion under this section does not include graduate coursework.

IRC Section 127 allows all employers to provide each employee with qualified educational assistance on a tax-free basis up to a value of \$5,250 annually. The tuition remission Valparaiso University offers employees for graduate-level education is eligible for this exclusion. Please note that this exclusion does not apply to dependent spouses or children. The tuition remission for graduate-level education provided to dependent spouses and children is 100% taxable. The IRC requires that educational assistance in excess of \$5,250 must be included in the employee's taxable wages and employment taxes must be withheld. Educational assistance in excess of the excludable amount is subject to Social Security, Medicare, Federal Income, State Income, and County Income taxes.

Below is a chart to summarize when tuition remission is taxable:

Undergraduate – Employee	Undergraduate – Spouse/Dependent	Graduate – Employee	Graduate – Spouse/Dependent
Not taxable	Not Taxable	Taxable after exclusion of \$5,250	100% taxable

How is the taxable benefit determined?

The Finance Office receives a report from Financial Aid each semester listing the individuals receiving the tuition remission benefit and the total dollar amount each individual is receiving. Every March, August, and September the Finance Office uses this report to capture all tuition remission activity on a year-to-date basis and update a worksheet that tracks tuition remission granted for the calendar year. If a course is dropped or added, the change is accounted for at these points in time. A final analysis is completed at the end of November to capture any activity that may have occurred after the September report was generated and to make any necessary corrections to the taxable income that will be reported

on each individual's Form W-2. The Finance Office provides a list to the Payroll Office of the employees who received a total amount in excess of the annual excludable amount for the calendar year as well as the dependent spouses and children receiving tuition remission. If you have concerns regarding how the tax may affect your pay advice, feel free to contact the Payroll Office to discuss an estimate of the impact.

When are the taxes withheld?

The taxable tuition benefit is combined with regular earnings and taxed as a single amount in accordance with IRS regulations. The increase in taxable wages also increases the taxes withheld and reduces net pay. The Payroll Office calculates the impact the additional taxable income will have on the employee's net pay. To minimize the impact of the additional income tax withholding, we may distribute the additional income evenly across a number of paychecks received during the remainder of the semester/session to match the timing of the taxation with when the employee is receiving the benefit. For fall semester, all tuition remission must be processed through payroll by the first pay in December to allow time for calendar year reconciliation and any necessary related adjustments or corrections due to added and/or dropped courses.

As a courtesy, the Payroll Office will notify employees by e-mail of the amount of their taxable tuition remission, the taxable income tax withholding required, and the pay periods impacted. Every attempt will be made to notify the employees in advance as much as possible of the first pay in which the taxes will be withheld.

What happens to the taxes that are withheld?

The additional taxable income and taxes withheld are reported on Form W-2. The university is required to issue W-2 forms to employees by January 31st to provide the information necessary to file their personal tax returns.

What is expected of the employee?

Employees participating in the tuition remission are encouraged to track their tuition remission benefit for the calendar year and plan accordingly for any possible reductions in net pay. Tracking will also allow the employee to compare their information with the emails received from the Payroll office as well as confirm the amount reflected on their last pay advice of the calendar year is correct. The employee should contact the Payroll office by January 7th to report any discrepancies so that the variances can be researched and any necessary correction can be made to the employee's Form W-2.

If you should have any questions or need additional information, please contact:

- For questions regarding the policy or procedure, please contact Human Resources (219) 464-5214 or human.resources@valpo.edu.
- For questions regarding how tuition remission will or has impacted your pay, please contact Payroll (219) 464-5795 or payroll@valpo.edu.