

Truman State University offers employees the opportunity to pursue higher education at a discounted cost. This exceptional benefit is offered for both undergraduate and graduate coursework. The Internal Revenue Service has ruled that undergraduate enrollment fee discounts are generally not included as income for employees of educational institutions. **However, graduate enrollment fee discounts are included as income for employees of educational institutions.**

**WHEN IS ENROLLMENT FEE DISCOUNT TAXED?**

Under section 117(d) of the Internal Revenue Code, educational institutions offering a discount in enrollment fees 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 and only applies to employees of an educational institution.

Section 127 of the Internal Revenue Code allows all employers, whether or not they are an educational institution, to provide their employees (not spouses or dependents) 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.

Therefore, graduate level enrollment fee discounts received by employees of educational institutions are taxable once the value exceeds \$5,250 per tax year. In addition, **ALL** graduate-level enrollment fee discounts received by non-employee spouses and dependents of employees of educational institutions are fully taxable (i.e. there is no \$5,250 exclusion).

The Internal Revenue Code requires that taxable graduate enrollment fee discounts for University employees, their spouses and dependents must be added to the employees’ taxable wages and all applicable income taxes must be withheld.

**WHAT HAPPENS TO THE TAXES THAT ARE WITHHELD?**

The additional taxable income and taxes withheld are reported on the employee’s W-2. The University is required to make W-2’s available to employees by January 31<sup>st</sup> to provide the information necessary for completing income tax returns. Enrollment fee discounts in excess of the excludable amount are subject to federal, state, local, Social Security and Medicare taxes.

**HOW IS THE TAXABLE BENEFIT DETERMINED?**

Each semester after the add/drop date, the Student Accounts Office will prepare a report indicating the total dollar amount of graduate enrollment fee discounts received by employees (including spouses and dependents ) during the current term/tax year. This report will be used by the Human Resources / Payroll Departments to determine if enrollment fee discounts are taxable.

When the amount of enrollment fee discount received by an employee becomes taxable, the taxable amount must be added to the employee’s taxable wages. The increase in taxable wages will result in an increase in the taxes withheld and a corresponding reduction in net pay.

**WHEN ARE THE TAXES WITHHELD FROM EMPLOYEES’ PAYCHECKS?**

The tax due on the additional reported income must be withheld from the employee’s paychecks during the term in which the graduate student takes courses. To minimize the impact on net pay, once the University determines that additional tax withholding is required, the additional taxes will be spread out evenly across the paychecks issued during the academic term in which the graduate level courses are being taken. If you have already received one or more paychecks during the current academic term, the additional taxes will be spread out across the *remaining* paychecks that you will receive during the term. The following charts indicate which paychecks will be affected by the additional tax withholding.

<b>Term</b>	<b>Paychecks Affected</b>
Spring	January, February, March, April and May
Summer	June, July and August
Fall	September, October, November and December

All employees are encouraged to track their taxable enrollment fee discount benefit for the year and plan accordingly, which may require changes to the employee’s federal and state W-4.

## FREQUENTLY ASKED QUESTIONS

- **Who should I contact with questions regarding enrollment fee discounts?**

Questions regarding your eligibility, application and approval of enrollment fee discount benefits should be directed to the Human Resources Department at (660) 785-4031.

Questions regarding the timing and amount of an enrollment fee discount applied to your student account should be directed to Student Accounts Office at (660) 785-4150.

Questions regarding the inclusion of enrollment fee discount benefits in your taxable wages should be directed to the Payroll Department at (660) 785-4150.

- **I believe the graduate level courses I am taking are related to my job and, therefore, qualify as a “working-condition fringe benefit”. Why can’t I be exempt from tax withholding on my graduate courses?**

The IRS position is that the value of job related graduate level enrollment fee reductions by colleges and universities do not qualify as working condition fringe benefits because the tax treatment of this item is addressed elsewhere in the tax code [e.g. § 117(d) or § 127](FSA 200231016, August 2, 2002, IRS Office of Chief Counsel). For this reason, the University may not exclude the value of the graduate enrollment fee reduction in excess of the \$5,250 limit from your gross income.

- **Can I spread the additional tax withholding out beyond the term in which the courses are taken?**

All income is considered taxable when the benefit is received by the employee. The Payroll Office is required to withhold the taxes during the term in which the benefit is received, which is the term in which the courses are taken.

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

The IRS does not permit the University to accept payments directly from an employee toward the employee’s income tax withholding. Income taxes are required to be withheld from an employee’s paycheck.

- **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.**

While the IRS does allow employers to record the taxable income associated with certain benefits without requiring additional income taxes to be withheld, educational assistance is not one of these benefits. The University is required to withhold taxes for this additional income.

- **Who should I contact if I have taken classes but not received the enrollment fee discount on my student account?**

Please contact the Human Resources Department at (660) 785-4031 to confirm your enrollment fee discount forms have been completed and processed. The Tuition Reduction Form is available by logging into TruView, clicking on the Employee tab and selecting Benefits or, by using the Processmaker link. The Tuition Reduction form must be completed for each term and should be submitted prior to the beginning of each term.