

## **GRADUATE-LEVEL EDUCATIONAL ASSISTANCE TAX REPORTING REQUIREMENTS**

### **Scope**

*This memorandum addresses the tax reporting requirements applicable to graduate-level educational assistance provided by the University to employees. Educational assistance includes tuition waivers and tuition reduction.*

### **General Rule**

*The University may, in accordance with section 127 of the internal revenue code, exclude from an employee's gross wages \$5,250 of educational assistance each year, regardless of whether the courses are job-related or non-job-related. If the value of educational assistance exceeds the annual \$5,250 limit, the excess value attributable to graduate-level courses is excludible only if the courses are job-related. If the excess value is attributable to non-job-related graduate-level courses, the excess value is taxable wages to the employee, must be included in federal gross wages on the employee's Form W-2, and is subject to payroll tax withholding. The payroll office is required to coordinate the necessary payroll tax withholding and reporting.*

### **Job-Related Tests**

*If the two part job-related test is satisfied and documented, graduate level courses taken by employees qualify for exclusion from income. Acceptable documentation would include a form or memorandum signed by the employee's supervisor.*

*The job-related tests are not satisfied unless BOTH of the following tests are met.*

*FIRST, the educational assistance MUST MEET ONE of the following requirements:*

- a. The education must maintain or improve skills required by the employee in his/her job.*
- b. The education must meet the express requirements of the University imposed as a condition of retaining the job. Please note, the requirement must have a bona fide business purpose, and only the minimum education necessary for retention of employment, status or salary may be considered as undertaken to meet the employer's requirement.*

*SECOND, the educational assistance MUST MEET BOTH of the following requirements:*

- a. The education cannot constitute a minimum educational requirement to qualify for obtaining employment.*
- b. The education cannot lead to qualifying the individual for a new trade or business. Please note, a change in duties does not constitute a new trade or business if the new duties involve the same general work as is involved in the employee's present work.*