

## Frequently asked Questions: Tax Implications for SJU Tuition Remission Benefits

St. John's University offers generous undergraduate and graduate tuition remission benefits to its full-time employees and their family members. Undergraduate tuition remission for employees, spouses and dependents is not subject to tax; however, the Internal Revenue Service considers graduate tuition benefits taxable income. These FAQ's should answer all your questions regarding the tax implications and how the University complies with this requirement.

Per Internal Revenue Code, section 117(d), 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 employees' taxable wages. The exclusion under this section *does not extend to graduate coursework or Undergraduate tuition for an eligible designee who does not meet the IRS guidelines for tax dependency.*

### When is Graduate level tuition taxed?

The IRS requires employers to tax graduate level tuition as income and to report this income on an employee's W2. For employees, the first \$5250 per calendar year is excluded from income. Only the amount above \$5250 during the calendar year is taxable. For an employee's spouse or child, the entire graduate tuition amount is taxable.

### When is tuition taxable?

Undergraduate tuition is never taxable for spouse and dependent children. Undergraduate tuition is taxable for an eligible designee who does not meet the IRS guidelines for tax dependency (see University policies 608B or 608BB). Graduate-level tuition becomes taxable to the employee when the benefit is received. **For employees**, any amount over \$5250 in a calendar year is taxable and **for children and/or spouse** all graduate-level tuition is taxable.

Although full-time employees hired prior to June 1, 2010, are not charged graduate tuition by the University this benefit is 100% taxable. For full-time employees hired after June 1, 2010, the University benefit for Graduate degrees is 50% tuition remission for children and spouse. The remaining 50% paid by the employee is non-taxable.

The addition of this taxable income can be significant. Therefore, we have developed the following schedule to spread-out the tax on this benefit.

<u>Semester</u>	<u>Additional Tax Included in Paycheck</u>
Winter and Spring	February to June (10 paychecks)
Summer	July to November (10 paychecks)
Fall	September to December (7 paychecks)

The Payroll Office will notify employees via email of the amount of taxable graduate tuition. Employees should monitor tuition benefits and prepare accordingly for the reduction in take-home pay based on the additional tax withholding.

### How are taxable tuition benefits calculated?

On a bi-monthly basis, the Payroll Office reviews a report of all taxable tuition benefits received by each employee. For employees with taxable tuition, the Payroll Office will subtract \$5250 from the total tuition benefit. If, after this subtraction, there is a remaining balance, then that amount will be added to employee's paycheck as taxable income. For the children and/or spouse the Payroll Office will add the total tuition benefit. This total will be added to employee's paycheck as taxable income.

The total taxable income will be included in the employee's paycheck, spread out over the semester, as stated above.

### How are taxes withheld?

The tuition cost is added to the employees' pay as income for tax purposes. Taxes are withheld from this additional taxable income. As a result, employees can expect their Federal, State, City, FICA and Medicare tax to increase resulting in less net or take-home pay.

## Can I pay the taxes on tuition directly?

As with any wages or employer provided taxable benefit, we are required to withhold tax directly from your pay check. The only option to reduce the tax is to pay the tuition or a portion of the tuition directly. If the tuition is for a dependent check with Student Financial Services for options to reduce tuition amount. You may be able to reduce taxable tuition with loans or other financial assistance programs.

At the end of the year, all income including graduate taxable tuition are reported on the W2 Annual Wage Statement.

## Examples:

### To calculate Employee taxable tuition:

1. Add up the amount of tuition for the graduate course(s) you will be taking during the semester. Example: 2 courses for \$3,300 each:  $\$3,300 + \$3,300 = \$6,600$
2. Deduct \$5,250 (exclusion for employee only) from the total amount of graduate tuition for the semester. This new total is the taxable amount of your employee tuition benefit for the semester. Example:  $\$6,600 - \$5,250 = \$1,350$
3. Multiply the taxable amount by 40% (the estimated rate of tax for Federal and State income taxes and FICA taxes). This new total is an estimate of the amount of taxes that will be deducted from your paycheck(s) during the semester. Example:  $\$1,350 \times 40\% = \$540$  (Estimated total additional tax withheld from employee's wages)
4. To minimize the impact of this tax, we divide this additional tax withholding over 7 pay checks. Example:  $\$540 / 7 = \$77$  (Estimated additional tax withheld from employee's paycheck for 7 pays)

### To calculate taxable tuition for Child / Spouse

1. Add up the amount of tuition for the graduate course(s) taken by your Child / Spouse during the semester. Example: 2 courses for \$3,300 each:  $\$3,300 + \$3,300 = \$6,600$
2. Multiply the taxable amount by 40% (the estimated rate of tax for Federal and State income taxes and FICA taxes). This new total is an estimate of the amount of taxes that will be deducted from your paycheck(s) during the semester. Example:  $\$6,600 \times 40\% = \$2640$  (Estimated total additional tax withheld from employee's wages)
3. To minimize the impact of this tax, we divide this additional tax withholding over 7 pay checks. Example:  $\$2640 / 7 = \$377$  (Estimated additional tax withheld from employee's paycheck for 7 pays)
4. The total taxable amount will be included on your W2 Annual Wage Statement along with your other income.

## Why are the withholding amounts greater for the Fall then at the beginning of the calendar year?

At the beginning of the calendar year we deduct \$5250 for employee taxable tuition. After you have exceeded the deductible amount all graduate-level tuition is taxable. If you take classes throughout the year you will experience less tax at the beginning of the calendar year and all tuition greater than \$5250 will become taxable.

## How can I find the total tuition amount for my graduate-level classes?

Tuition charges and a list of classes can be accessed on the Student's [University Information System](#).

## What if I have questions regarding tuition charges for classes?

To maintain confidentiality and privacy, the Payroll Office does not have access to detailed information on Student's accounts. For questions regarding tuition charges, class cancelation or other student matters, please contact the [Office of Student Financial Services](#).

## Can I claim the Hope Scholarship Credit, Lifetime Learning Credit or take a tuition deduction on my federal tax return?

You can only claim a credit or take a deduction for qualified education expenses if you pay for them personally from your own funds. Since the University has provided you with a tuition benefit, you cannot claim a tax credit on the taxable tuition amount.

### **Where can I find the University's complete Tuition Remission policy and guidelines?**

The tuition remission policy that applies to you will depend on your employee class and date of hire.

### **How are taxable tuition benefits reported for qualifying retirees and their dependents?**

Retired employees no longer on the Payroll system will receive a 1099 form with any taxable tuition for themselves or their spouse and/or dependents. Note, the \$5250 exemption will only apply to the employee tuition amount. Spouse and dependent graduate tuition is 100% taxable.

Full-time faculty members receive tuition remission for their family members as defined and outlined in their Collective Bargaining Agreement. The office of Student Financial Services can answer additional questions from faculty.

Full-time staff and administrators, their dependents and children, and qualifying retirees, please visit the [Human Resources Policy Manual](#) on St. John's Central and refer to the applicable policy as identified below:

- #608-A, Tuition Remission for Administrators, Staff and Qualifying Retirees
- #608-AA, Tuition Remission for Administrators, Staff and Qualifying Retirees Hired on or after June 1, 2010
- #608-B, Tuition Remission for Spouse/Children of Administrators and Staff
- #608-BB, Tuition Remission for Spouse/Children of Administrators and Staff Hired on or after June 1, 2010