Tuition Waiver Benefit: Taxation FAQ

Federal tax law requires certain tuition benefits to be treated as taxable income. The taxability of tuition waiver depends on several factors, including:

- Whether the coursework is undergraduate or graduate level
- Whether the recipient is the employee, spouse, or dependent
- Whether the coursework qualifies as job-related education
- The amount of tuition waiver received during the calendar year

This FAQ provides general information only and should not be considered tax advice. Employees are encouraged to consult a qualified tax advisor regarding their individual tax situation.

General

What is a tuition waiver benefit?

A tuition waiver benefit allows eligible employees and/or qualifying family members to have some or all tuition charges reduced or waived for ATU courses.

How are taxable tuition benefits reported?

Any taxable portion of the tuition waiver benefit will generally be:

- Added to the employee's taxable wages;
- Reported on Form W-2; and
- Subject to applicable federal, state, Social Security, and Medicare taxes.

The University may spread the taxable value across several pay periods to reduce the impact on any single paycheck.

Will I see additional tax withholding on my paycheck?

Possibly. If part of your tuition waiver benefit becomes taxable, additional taxes may be withheld from your paycheck during the period in which the taxable benefit is reported. This may reduce your net pay.

Are tuition waiver benefits reported on Form 1098-T?

Educational institutions may report tuition charges, scholarships, grants, and other educational assistance on Form 1098-T. Employees should be aware that tuition waiver amounts generally cannot be used both as a tax-free educational benefit and as the basis for certain education tax credits or deductions.

When the employee is the student

Is undergraduate tuition waived for employees taxable?

Federal tax law allows qualified educational institutions to provide undergraduate tuition reductions to employees without creating taxable income. Undergraduate tuition waivers are generally excluded from taxable wages under Internal Revenue Code Section 117(d).

Is graduate tuition waiver for employees taxable?

However, under Internal Revenue Code Section 127, up to $5,250 annually may be excluded from taxable income through a qualified educational assistance program. Amounts exceeding $5,250 may be taxable unless another exemption applies.

How is the $5,250 annual exclusion applied?

Under Section 127 of the Internal Revenue Code, a qualified educational assistance program may provide up to **$5,250 per calendar year** in tax-free educational assistance.

If total graduate-level tuition benefits exceed $5,250 during the calendar year, the amount above that limit may be subject to taxation unless the coursework qualifies for another tax exclusion.

What are possible exclusions/ exemptions?

Graduate coursework may be excluded from taxable income if it qualifies as a working condition fringe benefit (see IRC Section 132(d)).

The coursework may qualify if it:

- Maintains or improves skills required in the employee's current position; or
- Is required by the University or by law for the employee to keep their present job, status, or compensation.

However, coursework generally does not qualify if it:

- Is needed to meet the minimum educational requirements of the current job; or
- Qualifies the employee for a new trade or business

Who determines whether coursework is job-related?

The employee is generally responsible for providing information about the course and its relationship to their current position. The University requires supervisory review/ certification when employees request consideration under the job-related education exclusion.

When the spouse or dependent of an employee is the student

Is undergraduate tuition waived for a spouse or dependent taxable?

No. Federal tax law typically allows qualified tuition reductions for spouses and eligible dependents at the undergraduate level without creating taxable income for the employee.

Is graduate tuition waived for a spouse or dependent taxable?

Yes. Graduate-level tuition benefits provided to a spouse or dependent are taxable to the employee unless the recipient independently qualifies as an employee eligible for the benefit.