

## Guidance on the Tax Treatment of Employee Tuition Waivers

### General Information on UConn's Employee Tuition Waiver Benefits:

#### Eligible Employees:

- UConn provides employee tuition benefits, including waivers or reimbursements<sup>1</sup>, to employees who are employed at a minimum of 50%.
- UConn has negotiated employee tuition waiver benefits with the following collective bargaining units:
  - i. UCPEA
  - ii. AAUP, UCHC-AAUP<sup>2</sup>
  - iii. AFSCME (NP-3)
  - iv. UHP

Management/Confidential Employees are also eligible for employee tuition benefits but are not covered by a collective bargaining agreement.

Employees should refer to their union's respective collective bargaining agreement to understand the terms and conditions of the employee tuition waiver benefits negotiated between UConn and the union to which they belong.

### Tax Treatment of Employee Tuition Waivers in accordance with the Internal Revenue Code ("IRC"):

Under IRS rules, an employee tuition waiver will be treated as taxable compensation to the employee **unless** the waiver qualifies to be excluded from income under one of the following four exceptions:

1. Undergraduate level courses
2. Graduate level courses, Graduate Assistant "GA" tuition waiver
3. Graduate level courses, courses related to employment
4. Graduate level courses, courses not related to employment, under \$5,250

Each of these exceptions is discussed in further detail below.

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<sup>1</sup> The remainder of this document refers to tuition waivers for ease of readership, however the tax treatment of tuition waivers and reimbursements is the same.

<sup>2</sup> Reimbursement-only

## 1. Undergraduate Level Courses

IRC §117(d)(2) authorizes an employer to provide an employee with a tax-free tuition waiver for education “below the graduate level.”

## 2. Graduate Level Courses, Graduate Assistant (“GA”) Tuition Waiver

IRC §117(d)(5) states that graduate level tuition waivers may be excluded from an employee’s gross income if the employee is a graduate student who is engaged in “teaching and research activities” for the organization. This provision is applicable to UConn’s Graduate Assistant population because they are *students first* and teachers or researchers second. This exclusion does not allow full-time faculty members engaged in teaching or research activities to receive a tax-free waiver for graduate level courses.

## 3. Graduate Level Courses, Courses Related to Employment

If the educational expenses are incurred by the employee for ***either*** of the two reasons cited below, the University may exclude the value of the tuition waiver from the employee’s wages as a “**working condition fringe benefit**”.<sup>3</sup>

A graduate level tuition waiver may be excluded from an employee’s wages if:

- i. The education meets the express requirements of the individual’s employer (or applicable federal or state law) that enables the individual to ***retain*** his/her current employment status or rate of compensation (e.g. continuing professional education required for certain licensed professionals like doctors, lawyers and certified public accountants). However, the education cannot be necessary **to meet the minimum educational requirements** (i.e. knowledge, skills and/or experience) stated for the position. The minimum education requirements refer to the qualifications that a potential job candidate must *already possess* in order to be considered qualified for the position before being hired. (See examples 1 & 2 below)

**OR**

- ii. The education **maintains or improves** skills needed in the employee’s current job **without qualifying the individual for a new trade or business**. When an education qualifies an employee to perform tasks and activities significantly different from those, he/she could perform before obtaining the education, then the education is deemed to qualify the employee for a new trade or business so the waiver does not qualify for income exclusion. (See examples 3 & 4 below)

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<sup>3</sup> If the educational expenses would be deductible by the employee as a business expense under IRC §162 then the University may exclude the value of the tuition waiver from the employee’s wages under IRC §132(d) as a “working condition fringe benefit”.

**Example 1 [an education required to meet minimum job qualification]:**

**Facts:** An individual applied for a position at UConn that required a Master's degree as a minimum educational requirement for employment. The individual was only six credits (2 courses) away from finishing her Master's degree so she applied for the position under the pretense that she would complete her Master's degree shortly after being hired if she were offered the position. The individual applicant was offered the position and accepted employment at the University. After her employment commenced, she enrolled in two classes at UConn which she needed to complete her Master's degree. The cost of the tuition for the two courses was waived by the University due to her status as a full-time UCPEA employee.

**Tax Reporting:** A Master's degree was stated in the job posting as a minimum educational requirement for the position. Therefore, the tuition waivers she received for the two courses she took to obtain her Master's degree are not excludible from her wages because the education was needed to meet the minimum educational requirements stated for her employment position.

If the education is being pursued in order to **meet the minimum educational requirements** for qualification in his/her employment [as defined by Treas. Reg. Sec. 1.162-5(b) (2)] and this minimum requirement is the result of a newly enacted policy change or law change that came into effect after the employee was hired for the position, then the tuition waiver is excludible from the employee's wages.

**Example 2 [minimum job qualifications change after start date]:**

**Facts:** A currently employed nurse in Student Health Services is pursuing a Master's degree in UConn's Biology program. When the employee was originally hired, holding a MS in Biology was not stated as a minimum qualification for the position. However, the department recently revised its minimum qualifications for management level employees and has required this employee to secure an MS in Biology in order to retain her current employment status at the University. The MS in Biology will improve the employee's understanding of the biological intricacies of the human body and will not qualify her for a new trade or business.

**Tax Reporting:** Since the education being pursued by the employee is the result of a revision to minimum qualification standards enacted by UConn while she was already employed in the position, the tuition waiver can be excluded from the employee's wages as a working condition fringe benefit.

**Example 3 [maintains or improves job-related skills used in current position]:**

**Facts:** An employee who currently holds the title of "Business Manager" requests a tuition waiver to pursue a Master's in Business Administration ("MBA"). A MBA degree is not a

minimum qualification for his current position. The Business Manager is currently responsible for analyzing and reporting on his department's business activity as well as preparing financial reports and communicating results and recommendations to top level management.

Tax Reporting: The MBA education being pursued by the employee will maintain or improve the skills the employee needs and uses daily to fulfill his current job responsibilities. Therefore, the value of the tuition waiver can be excluded from his taxable wages.

If a graduate level education qualifies an employee for a **new trade or business** (especially one that has a barrier to entry such as a lawyer, physician, or certified public accountant) then the tuition waiver cannot be excluded from the employee's wages. When the education or degree will enable the individual to perform tasks "significantly different" than the tasks and duties currently being performed by the individual in their current position (without the degree), then the education is deemed to qualify the individual for a new trade or business.

**Example 4 [highly specialized education in a field with a barrier to entry]:**

Facts: An employee who works in the accounting department would like to pursue a Masters in Accounting at UConn. The employee does not currently hold a Master's degree because it was not a minimum requirement for the position nor is the employee a certified public accountant ("CPA"). The employee never obtained the minimum number of accounting course credits needed to be eligible to take the CPA exam. However, the employee wishes to pursue a MS in Accounting which will give him the credits he needs to sit for the CPA exam and hopefully become a licensed CPA.

Tax Reporting: Even though the degree being pursued by the employee will improve the employee's ability to perform his current job in the accounting department, the education will enable him to sit for the CPA exam and obtain a CPA license. The education being pursued by the employee is deemed to qualify him for a new trade or business because the education will allow him to obtain a professional license which allows him to practice as a certified public accountant. Therefore, a tuition waiver granted to this employee may not be excluded from the employee's taxable wages.

Whether the employee takes or passes the CPA is not the determining factor in whether the education qualifies the individual for a new trade or business. The fact that this education enables the employee to pursue a CPA license and, therefore, enables the employee to perform significantly different job functions that require a much higher level of responsibility and competency qualifies the individual for a new trade or business. An individual who holds a CPA license must adhere to a higher set of standards and competencies. The individual is able to publicly identify himself/herself as a CPA and the advice given by a CPA is typically held in higher regard than an unlicensed accountant. Furthermore, a CPA can typically sign/authorize tax returns and/or financial statements which is not permissible by individuals who do not hold a CPA license.

Note: All graduate level tuition waivers given to UConn employees who are pursuing the following degrees will need to be reviewed by the Tax & Compliance Office to determine if the education qualifies the employee for a new trade or business:

- Juris Doctorate (“JD”)
- Masters in Accounting (“MSA”)
- Masters in Psychology
- Advanced Practice Registered Nurse (“APRN”)

#### 4. Graduate Level Courses, Courses Not Related to Employment, under \$5,250

IRC §127 allows the University to waive up to \$5,250 in tuition per calendar year under an employer provided “educational assistance program”. The employee does not need to be enrolled in a degree program nor does the education have to be job related, however the coursework may not involve “sports, games, or hobbies.” Further, any tuition waiver exceeding the \$5,250 annual threshold will be taxed as taxable compensation to the employee if the waiver does not qualify for one of the other exceptions described in this document.

#### **Example 5 [education to satisfy the employee’s own personal in the course and not primarily for work-related reasons]:**

Facts: An employee holds an undergraduate degree in business management and is currently employed as a Human Resource Manager at the University. The employee took several German foreign language classes in high school and during her undergraduate years at college. However, the employee never gained the language fluency that she hoped she would in German and desires to pursue a M.A. in German Studies to improve her understanding of the language and to be able to speak it more fluently. Her current role in the Human Resources department at the University does not require that she speak German.

Tax Reporting: The employee is seeking a M.A. in German Studies to satisfy her own personal interest in the German language. The education she is pursuing will provide her the opportunity to learn new skills in a field that is not related to her role as Human Resources Manager at the University. The education being pursued by the employee is deemed to qualify her for a new trade or business because the education will allow her to obtain a new position unrelated to her current duties as a Human Resources Manager. The employee will even be able to apply for jobs that require applicants to speak fluent German. Therefore, a tuition waiver for tuition costs incurred for her M.A. degree in German Studies will not qualify as a working condition fringe benefit. However, the University can waive her tuition costs up to \$5,250 per calendar year on a tax-free basis pursuant to IRC Sec 127 and the University’s educational assistance program. Any amounts paid during the calendar year in excess of \$5,250 will be treated as taxable compensation to the employee.