

Tax Treatment of Employee Tuition Waivers – Frequently Asked Questions

1) Will my employee tuition waiver be treated as taxable to me?

Under IRS rules, your employee tuition waiver will be treated as taxable to you *unless* the tuition waiver meets one of the four exceptions listed below:

- i. Undergraduate level courses
- ii. Graduate level courses, Graduate Assistant “GA” Tuition Waiver
- iii. Graduate level courses, where the courses:
 - a. Are related to employment; and
 - b. Do not qualify the employee for a new trade or business; and
 - c. Do not satisfy a minimum educational requirement of the employee’s position.
- iv. Graduate level courses, courses not related to employment, under \$5,250

Further discussion and examples of each of these four exceptions can be found [here](#).

2) If my education doesn’t meet one of the exceptions above, does this mean that I might not receive an employee tuition waiver for the current semester or a future semester?

No. UConn’s Human Resource Department determines whether you are *eligible* to receive an employee tuition waiver based on the terms of your employment arrangement and union affiliation. The Tax & Compliance Department determines whether the employee tuition waiver is taxable to you based on current income tax laws.

3) How will I know if my employee tuition waiver will be treated as taxable to me?

The Tax & Compliance Office will notify you via email if your employee tuition waiver will be treated as taxable to you.

4) When should I expect to be notified?

For the Spring Semester, emails will be sent prior to March 1st and for the Fall Semester, emails will be sent prior to October 1st.

5) Will I be notified if my employee tuition waiver is not treated as taxable to me?

No. If your employee tuition waiver is not taxable to you, you will not receive any correspondence from the Tax & Compliance Department.

6) If my employee tuition waiver is taxable to me, will the entire amount be taxed? I’ve heard that the first \$5,250 of tuition waiver is not taxable.

In accordance with IRS tax laws, UConn is allowed to waive up to \$5,250 in tuition per calendar year for each eligible employee under its 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 to be eligible for the \$5,250 waiver. However, the coursework may not involve “sports, games, or hobbies.”

7) How is my employee tuition waiver going to be taxed?

The taxable portion of your employee tuition waiver (i.e. the amount in excess of \$5,250) is reported to you as additional compensation. The taxable portion will be included in your wages along with your regular wages. The University will withhold applicable payroll and income taxes based on the taxable value of your employee tuition waiver just like they are on your regular wages. Income tax withholding amounts are based on the Form W-4 you submitted to the Payroll Department. At the end of the year, the taxable portion of your employee tuition waiver is included in Box 1 of your Form W-2 along with your regular wages earned.

8) Will taxes be calculated based on the academic year or the calendar year?

Individual taxpayers pay income tax on a calendar year basis. As such, the taxable value of your employee tuition waiver is determined on a calendar year basis.

9) How will including the taxable portion of my employee tuition waiver impact my take-home pay?

Adding the taxable portion of your employee tuition waiver to your regular taxable wages will result in you receiving less take-home pay due to the increase in income taxes, payroll taxes and certain deductions (specifically, retirement contributions and retirement health fund) that are withheld on the additional compensation. If you would like to know the net cash impact on your take-home pay, you can contact the Payroll Department (ellen.lowe@uconn.edu) which can compute that amount for you.

10) Is there a way to mitigate the impact on my take-home pay?

Yes. The taxable value of your employee tuition waiver does not need to be recognized in one paycheck. The Payroll Department can spread the taxable value of your employee tuition waiver over the remaining pay periods in the current calendar year.

11) What happens if I receive employee tuition waivers for both the spring and fall semesters?

If you have been informed in the spring that your employee tuition waiver is taxable to you and you are planning on getting another employee tuition waiver in the fall for the same degree program, you should understand and prepare for the cash and tax implications of receiving the fall tuition waiver.

As explained above in Question #6, each employee is eligible to receive a tuition waiver up to \$5,250 on a tax-free basis. The \$5,250 exclusion amount applies to a full calendar year, such that, the exclusion often gets fully utilized against the spring tuition waiver amount. As a result, the fall tuition waiver amount may be fully taxable to the employee because the \$5,250 was already fully applied towards the spring tuition waiver amount.

Therefore, in the Spring, it is **extremely important** for the employee to plan for the tax implications of receiving a fall tuition waiver that may be fully taxable.

Example:

Value of taxable employee tuition waiver posted to employee's spring fee bill:	\$6,500
Excludible amount allowable under UConn's Educational Assistance Program:	<u>(\$5,250)</u>
Net taxable portion of spring tuition waiver	\$1,250
Value of taxable employee tuition waiver posted to employee's fall fee bill:	\$6,500
Remaining excludible amount allowable under UConn's Educational Assistance Program:	<u>\$ 0</u>
Net taxable portion of fall tuition waiver	\$6,500
Total taxable portion of tuition waivers received for the full calendar year	\$7,750

We are **strongly advising** employees who have been notified that their employee tuition waivers are taxable to them to work with the Tax & Compliance Office and the Payroll Department to project the total taxable value of tuition waivers they expect to receive for both the spring and fall semesters. This should be done in the early months of the calendar year. Doing so will enable the employee to recognize the TOTAL taxable value of their employee tuition waivers over more pay periods in the calendar year to lessen the bi-weekly impact on their take-home pay.

Therefore, in the example above, if the employee estimated that their taxable tuition waivers for the full calendar year would be approximately \$7,750 in the spring, the Payroll Department can begin to recognize this total value in equal increments over the remaining pay periods in the calendar year starting in February or March.

In contrast, if the employee did not begin to recognize the total taxable value in the spring, the employee would be forced to recognize the taxable amount of the fall tuition waiver (\$6,500) over the remaining pay periods in just the last three months of the year (approx. 6 bi-weekly pay periods). The result is that the employee would have a larger reduction in their take-home pay over the last three months of the year.

Important Notes:

- 1) After the fall tuition waivers are posted, the Tax & Compliance Office together with the Payroll Department, will compare any **projected** totals for taxable tuition waivers that are being recognized in an employee's wages to the **actual** total of taxable tuition waivers posted to the employee's fee bills. Any adjustments ("true-ups") that are needed to correct the taxable fringe benefit amount will be made in the Fall.
- 2) If an employment arrangement terminates before the total value of taxable tuition waivers is recognized in the employee's wages, the employee will receive a Form 1099-NEC from UConn at the end of the year if the remaining unrecognized amount is equal to or greater than \$600.
- 3) If an employment arrangement terminates and a projected total value of taxable tuition waivers is being recognized in the employee's wages, the Tax and Compliance Office together

with the Payroll Department will take steps to correct any over recognition of a taxable fringe benefit.

12) Am I really receiving a benefit if my tuition waiver is taxable to me?

Yes. Rather than paying out of pocket for the full cost of tuition, you are only paying tax on the taxable value of your employee tuition waivers in excess of \$5,250. Please refer to the examples posted [here](#).

13) Can I take a tax credit on my personal income tax return for the portion of the employee tuition waiver that is taxable to me?

We cannot determine your eligibility for tax credits and deductions. Eligibility is determined based on each person's facts and circumstances and tax situation. We can provide a **general overview** of the Lifetime Learning Credit that you *may* be eligible for. Please refer to IRS Publication 970 or consult a tax advisor for more detailed information.

Lifetime Learning Credit – This is a Federal income tax credit. The credit is equal to 20% of the first \$10,000 of qualified education expenses paid for during the tax year. The maximum credit that can be claimed is \$2,000 per year for each eligible student. This credit is nonrefundable, which means that if the allowable credit exceeds your federal income tax liability, then you do not get the excess amount back as a cash refund. The credit is available for “*qualified educational expenses*” paid for any postsecondary education or courses to acquire or improve job skills. The student does not need to be enrolled in a degree program. There is no limit on the number of years this credit can be claimed for each student. The credit may be limited or disallowed if the taxpayers' modified adjusted gross income exceeds specified thresholds.

“*Qualified educational expenses*” means 1) required tuition and fees that must be paid as a condition of enrollment; and (2) books, supplies and equipment *required* for your courses. It does not include room and board, travel, insurance or medical expenses including student health fees.

14) Who can I contact with additional questions regarding taxation of my employee tuition waiver?

Please contact the Tax & Compliance Office at taxcompliance@uconn.edu