



Graduate-Level Educational Assistance Tax Reporting Requirements

Scope

The memorandum addresses the tax reporting requirements applicable to graduate-level educational assistance provided by the CSCU System to its employees. Educational assistance includes tuition waivers and tuition reduction.

General Rule

The CSCU System 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 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 education 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 CSCU System 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.