TAXATION OF BENEFITS

The University administers the federal tax provisions regarding educational assistance (i.e., tuition benefits), as described in this document. In general, IRS regulations consider anything of value provided to an employee by an employer to be a form of compensation. All compensation must be reported as taxable wages and is subject to income and employment tax withholding, unless specifically excluded by the Internal Revenue Code (IRC).

There are provisions in the Internal Revenue code that exempt certain groups of employees from taxation; however, there are certain groups who DO have to pay taxes because no exclusion exists.

Four (4) groups are subject to income and employment tax withholding as follows:

- An employee who is a GRADUATE student is subject to tax withholding for tuition benefits paid which exceed the IRS limit of $5,250 per calendar year.
- A spouse/child who is a GRADUATE student is subject to tax withholding for tuition benefits paid beginning with the first dollar of benefits.
- A spouse/child who is an UNDERGRADUATE student who is NOT AN IRS TAX DEPENDENT of the eligible employee is subject to tax withholding for tuition benefits paid by the University beginning with the first dollar of benefits.
- Any spouse/child who is an Other Eligible Person or child of an Other Eligible Person (whether GRADUATE or UNDERGRADUATE student) is subject to tax withholding for tuition benefits paid beginning with the first dollar of benefits.

Who is an IRS Tax Dependent?

In order for the UNDERGRADUATE tuition benefits to be tax-free for a spouse/child of the employee, the spouse/child MUST be an IRS tax dependent. The WSU tuition benefits program doesn’t require the spouse/child to be an IRS tax dependent in order to be eligible for benefits, but it does require them to be an IRS tax dependent in order to receive the exclusion from taxation.

The “IRS tax” dependent is defined at this link: http://www.law.cornell.edu/uscode/text/26/152

NOTE: At any time WSU may require proof that your Spouse/OEP or Child meets requirements for program eligibility and/or the IRS Tax Dependent undergraduate tax exclusion.

When and How will Tax Withholding Work?

Each term, the WSU payroll office will administer the payroll tax withholding based on the taxable amount of employer-paid benefits paid during that term. The taxable amount will be withheld from the employee’s paycheck on the last 4 or more pay dates of each of three (3) terms. The amount of tax withholding will include both income and employment taxes - 25% for federal income tax, 4.3% for State income tax, 2.5% resident or 1.25% non-resident City income tax, 6.2% Social Security and 1.45% for Medicare.

If enrollment changes OR the student fails to earn a passing grade, which results in a change to the employer-paid tuition benefits, withholding will not be adjusted by the payroll office. Taxes can be reconciled when the employee files their individual tax return for that year.