Taxability of Graduate Tuition Remission

Meredith College offers employees and their eligible dependents the opportunity to pursue higher education tuition freee. This benefit is offered for both undergraduate and graduate coursework. While undergraduate tuition remission is generally not taxed, the Internal Revenue Service has ruled that graduate tuition benefit is taxable income. It is important that you understand how this affects your income and your paycheck prior to enrolling in courses.

When is Tuition Remission Taxed?
Section 127 of the Internal Revenue Code states that all graduate coursework will be taxed after $5,250 of educational assistance is given per employee per calendar year (January to December). At that time, any tuition value above the $5,250 exclusion will be added as taxable compensation to the employee’s paycheck and taxed accordingly. Educational assistance in excess of the excludable amount is subject to federal, state, Social Security, and Medicare taxes.

What happens to the taxes that are withheld?
The taxes are withheld each paycheck and remitted to the IRS and NC Department of Revenue at the close of each payroll. They are also reported on the employee’s Form W-2 at year end. The College is required to issue W-2 forms to employees by January 31st of the following year to provide the information necessary for completing their tax returns.

How is the taxable benefit determined?
Each semester, Payroll receives a report indicating the total dollar amount of tuition remission applied to the employee’s (or their eligible dependent’s) student record for graduate-level education. If the amount received exceeds the annual excludable amount of $5,250, the excess must be added to the employee’s taxable wages during the semester in which they are taking the class. The increase in taxable wages also increases the taxes withheld and reduces net pay.

When are the taxes withheld from my paycheck?
To ease the impact of this additional income tax withholding, the taxable benefit will be spread out evenly during the respective semester across a set number of consecutive paychecks received, not to exceed 4 paychecks. However, if the tuition remission form is not turned in to the Office of Financial Assistance on time, this may not be an option as the benefit must be taxed in the semester received. All employees are encouraged to track their tuition remission benefit for the year and plan accordingly.

Questions?
Please contact the Office of Human Resources at #8898 or hr@meredith.edu with any questions.