

MINNESOTA STATE COLLEGES AND UNIVERSITIES
Employer-Provided Educational Assistance

The Minnesota State Colleges & Universities System has a written educational assistance plan to meet the requirements of Internal Revenue Code Section 127. The purpose of the plan is to exempt certain educational assistance benefits from taxation; the plan covers benefits provided under System personnel plans and bargaining agreements. Under federal and state law, the first \$5,250 of tuition assistance used by the employee under the plan during a calendar year is not subject to income taxation. Separate rules apply to spouses and dependents (see below).

Review your applicable employee bargaining agreement/personnel plan for details regarding educational benefits. Please contact your campus Human Resources Office with any questions.

Employee Income Tax Consequences

If you are an employee of Minnesota State Colleges & Universities and you take undergraduate level courses via tuition waiver, you are not subject to taxation on any benefits received (i.e., there is not a dollar limitation for tax purposes under Internal Revenue Code Section 117).

However, if you receive tuition reimbursement (not tuition waiver) for undergraduate level courses, you will be subject to taxation on tuition in excess of \$5,250 in a calendar year. You will also be subject to taxation on graduate level tuition waiver and/or reimbursements received in excess of \$5,250 in a calendar year.

Special rules for spouse/dependent(s)

Tuition waivers for undergraduate level courses taken by spouses are not subject to taxation. Tuition waivers for undergraduate level courses taken by dependents under the age of 24 as of the close of such calendar year are not subject to taxation. Tuition waivers for undergraduate level courses taken any time during the calendar year by dependents who are or will be age 24 or older as of the close of such calendar year are subject to taxation. All graduate level tuition waiver benefits used by a spouse or dependent are subject to employee taxation.

All taxation will be in accordance with federal and state law.

Quick Reference Table

Person receiving benefits	Course Level	Benefit Type	Tax Consequences
Employee	Undergraduate	Tuition Waiver	Non-Taxable
Employee	Undergraduate	Tuition Reimbursement	Amount in Excess of \$5,250 is taxable (in a calendar year)
	Graduate	Tuition Waiver	
	Graduate	Tuition Reimbursement	
Spouse	Undergraduate	Tuition Waiver	Non-Taxable
Dependent under age 24 or disabled	Undergraduate	Tuition Waiver	Non-Taxable
Dependent 24 or older	Undergraduate	Tuition Waiver	Subject to taxation
Spouse or Dependent	Graduate	Tuition Waiver	Subject to taxation

This summary is provided for the convenience of employees; employees should discuss any questions regarding personal income tax issues with their tax advisor or preparer. Additional information regarding educational assistance plans in general is available from the IRS at: <http://www.irs.gov/publications/p970/ch12.html>. Note: education provided to *student employees* follow separate rules.

Taxable Employer Provided Education

If there is taxable tuition waiver and/or taxable educational reimbursement for an employee, spouse, or dependent(s), then it should be added to the employee's earnings using **earn code EDP**. Campus Finance and Human Resources staff need to collaborate on this endeavor as there may be tuition waiver and/or tuition reimbursements occurring. To assist colleges and universities with their responsibility to track and appropriately tax employer-provided education, there is an EPM11 query located in "**Finance and Accounting AC**" under "**AR Reports**" with the name of "**AR Tuition Waiver Tax**" available for those individuals with security clearance HR_HIGH or AC_HIGH.

Tax Services recommends that campuses **communicate with an employee** that has taxable employer provided education **prior** to adding the benefit to compensation. First, it provides the *employee with notice* that his/her pay check will be impacted (generally, reduced by taxes) by additional earnings in the form of taxable employer provided education. Second, it allows for a double check, just in case the tuition waiver module has not yet been updated for a student that adds or drops classes. Campuses want to ensure the accuracy of employee's earnings and this communication helps.

Note: employees can elect to spread the additional earnings over up to 3 pay periods. Some add it all to one pay check, but the majority of employees prefer the impact be spread over 3 pay checks. Employee tuition waivers and tuition reimbursement should be checked several times throughout each calendar year; at least once after the add/drop date each term. For fall semester, Tax Services recommends adding any necessary taxable employer provided education to earnings by *October* to ensure that there are enough pay periods in the calendar year if an employee wishes to spread the tax impact over 3 pay periods.

Examples of Taxable Employer Provided Education

1. Kathryn Lovelace teaches Computer Programming at Anoka Ramsey Community College (ARCC). Her son Thad is 23 and enrolled fulltime in the ARCC nursing program for Spring Term 2018. Kathryn uses her tuition waiver benefit to pay for her son Thad's Spring 2018 tuition of \$2238. Thad turns 24 on November 4th, 2018. The entire Spring term tuition waiver benefit is taxable to Kathryn because Thad turned 24 in the calendar year that he took the classes. ARCC must add the amount of the tuition waiver to Kathryn's pay as a taxable education benefit. ARCC uses SEMA4 earn code EDP and spreads the taxable waiver of \$2238 across 3 pay periods, so that Kathryn is taxed on an additional \$746 in gross pay each pay period.
2. James Hassler teaches English Literature at St. Cloud State University (SCSU). In the Spring of 2018, he takes one undergraduate and one graduate level course at Saint John's University for which he receives a tuition reimbursement of \$3550 from SCSU. In the fall of 2018, James uses \$3452 of tuition waiver benefit to pay for 3 graduate level courses at SCSU. Because the combination of James's tuition reimbursement and graduate tuition waiver, \$7002, exceeded \$5250 in 2018, James has a taxable educational benefit of \$1752 added to his calendar year 2018 wages. SCSU uses SEMA4 earn code EDP and spreads the waiver across three pay periods so that James is taxed on an additional \$584 in gross pay each pay period.
3. Raquel Carson works as the Laboratory Coordinator in the Biological Sciences department at Minnesota State University, Mankato. Her spouse, Dottie, is accepted into MSU, Mankato's Environmental Science graduate program. Raquel uses her tuition waiver benefit to pay for Dottie's Fall term 2018 tuition of \$3567. Because Dottie is taking graduate courses, the \$3567 of tuition waiver benefit is taxable to Raquel. MSU, Mankato must add the \$3567 of tuition waiver to Raquel's wages as a taxable educational benefit. MSU, Mankato uses SEMA4 earn code EDP and spreads the taxable tuition waiver of \$3567 across 3 pay periods so that Raquel is taxed on an additional \$1189 in gross pay each pay period.