

Graduate Tuition Waiver FAQs

Q1: Why is my graduate tuition waiver included on my paycheck?

A1: Under Internal Revenue Code (IRC) Section 127, employees enrolled in graduate level classes and who receive employer provided tuition benefits or graduate tuition waivers must include in income the amount of tuition waivers that exceed \$5,250 in a calendar year.

Q2: Are there any exceptions to graduate tuition waivers being taxed?

A2: Yes, there are three exceptions.

- 1) The total of all graduate tuition waivers received in a calendar year (January-December) that does not exceed \$5,250 is exempt from income.
- 2) Graduate students engaged in teaching or research, are exempt under IRC Section 117(d). Texas A&M University considers the positions with the titles of Graduate Assistant Teaching (GAT), Graduate Assistant Lecturer (GAL) and Graduate Assistant Researcher (GAR) as exempt from Section 127.
- 3) Employees whose education is considered job related under IRC Section 132(j) as a working condition fringe benefit. In order to claim this exemption, an "Employee Graduate Level Job Related Education Certification" form found on the Payroll Services website must be completed and returned to the Tax Compliance and Reporting department for evaluation of eligibility.

Q3: What does the IRS consider to be job related education?

A3: The IRS has identified four conditions in making this determination:

- 1) The education must be required by your employer or by law to maintain your current job, salary or status as long as it serves the business purpose of your employer OR,
- 2) The education is needed to maintain or improve skills needed in your present job.
- 3) The education cannot be a part of a program of study that can qualify you for a new trade or business.
- 4) The education cannot be used to meet the minimum educational requirements of your present job.

Q4: What does the IRS mean by "The education cannot be used to meet the minimum educational requirements of your present job"?

A4: The IRS means that when you were hired into your present position, you had met the minimum education requirement for the position. In other words, you already had a college degree at the level required for the position at the time of hire.

Below are two examples the IRS provided in Treasury Regulation 1.162-5(b)(2) that show individuals that did not meet the minimum educational requirements of their present jobs.

Example (1): D, who holds a bachelor's degree obtains temporary employment as an instructor at University Y and undertakes graduate courses as a candidate for a degree. D may become a faculty member only if he obtains a graduate degree and may continue to hold a position as instructor only if he obtains a graduate degree and may continue to hold a position as instructor only so long as he shows satisfactory progress towards obtaining his graduate degree. The graduate courses taken by D constitute education required to meet the minimum educational requirements for qualification in D's trade or business and, thus, the expenditures for such courses are not deductible.

Example (2): E, who has completed 2 years of a normal 3-year law school course leading to a bachelor of laws degree (LL.B.), is hired by a law firm to do legal research and perform other functions on a full-time basis. As a condition to continued employment, E is required to obtain an LL.B. and pass the State bar examination. E completes his law school education by attending night law school, and he takes a bar review course in order to prepare for the State bar examination. The law courses and bar review course constitutes education required to meet the minimum educational requirements for qualification in E's trade or business and, thus, the expenditures for such courses are not deductible."

Q5: How will I know how much of my graduate tuition waiver is subject to tax?

A5: In Single Sign On, you can view your paystub and look for Graduate Tuition Waiver. This is the amount that was added to your taxable income.

Q6: How will the graduate tuition waiver impact my taxes?

A6: Only the amount of graduate tuition waivers that exceeds \$5,250 for the calendar year is included in income.

Your most recent paystub will show the portion of the waiver that exceeded \$5,250 for the calendar year and is included in your taxable wages.

Please seek the services of a qualified tax advisor to determine how this additional income will affect your tax return.

Q7: Will the graduate tuition waiver be reported on my W-2?

A7: Yes. The amount of the waiver that is subject to tax will be included in Box 1 of the W-2.

Q8: Will the graduate tuition waiver be reported on my 1098-T?

A8: Yes. Both the taxable and nontaxable portion of the tuition waivers will be reported in Box 5 of the 1098-T. This is because the 1098-T is used for reporting the amount of qualified tuition and related expenses (QTRE) that can be used for claiming the education tax credits. The IRS requires financial aid received to be reported as a reduction against QTRE to limit what a taxpayer can claim.

The amount of credits claimed is dependent on the amount you pay for qualified tuition and fees. Waivers represent reductions in the amount the taxpayer will have to pay and therefore lowers the amount of credit that can be taken.

Q9: How is the taxable portion of the graduate tuition waiver determined?

A9: Each month, the Tax Compliance and Reporting office receives a report that shows the total dollar amount of tuition waivers received by employees for graduate level education during the calendar year for the Spring, Summer and Fall terms. When the amount received by the employee exceeds \$5,250, the excess is added to the employee's taxable wage when the benefit is received.

For example, if you received \$4,500 in waivers for graduate level courses in the Spring term, you would not have this amount included as taxable income as the \$5,250 threshold was not exceeded. Then in the Fall term, you receive another \$4,500 in waivers. The total amount of waivers received in the calendar exceeds \$5,250 by \$3,750. Therefore, you will have \$3,750 added to your regular wages.

Q10: Why is the graduate tuition waiver from two different academic school years included on my W-2?

A10: The Graduate Tuition Waiver tax, by law, is applied on a calendar year basis (January – December) as opposed to an academic year basis (August – July).

Q11: Who can I contact about specific questions regarding taxation of graduate tuition waivers?

A11: You can email your question to tax@tamu.edu or you can call the Tax Compliance and Reporting office at 979.845.2711.