



## **TAXABILITY OF TUITION BENEFITS**

The Internal Revenue Code (IRC) provides three sets of rules that may be used to determine whether a tuition benefit is taxable. If any of the three provisions applies, the tuition will be a tax-free benefit.

### **Undergraduate Faculty/Staff Education Benefit**

IRC Section 117(d) (Qualified Tuition Reduction Programs). Tuition benefits provided to employees, their spouses and dependents for undergraduate courses may be excluded from taxable income. There is no dollar limit on the amount that may be excluded. However, Section 117(d) only applies to undergraduate courses.

### **Graduate Faculty/Staff Education Benefit**

IRC Section 127 (Educational Assistance Programs). The Campbell University Education Benefit Program qualifies as an Educational Assistance Program. Section 127 applies to employees only. The maximum amount that may be excluded from taxes, for the employees only, under Section 127 in any year is \$5,250. The Section 127 exclusion applies generally to graduate-level tuition benefits except for classes involving sports, games, or hobbies which are neither job-related nor required for a degree. Graduate education benefits received by the employee's spouse or dependent(s) are 100% taxable to the employee. Graduate level education benefits received directly by the employees are taxable to the employee for any amount received over \$5,250 annually (unless the student is "engaged in teaching or research activities" for the University). *If you feel that you may qualify for this exemption, please contact Human Resources.*

IRC Regulation Section 1.132-1(f) "Fringe Benefit" rules. The IRS fringe benefit rules provide that tuition can be a tax-free benefit if the education "maintains or improves job skills". Under these rules, the exclusion does not apply if the course is required to meet the minimum educational requirements of the employee's job or if it qualifies the employee for a new occupation. The fringe benefit rules do not apply to tuition benefits provided to a spouse or child of an employee. *If you feel that you may qualify for this exemption, please contact Human Resources.*

The University complies with federal and state tax regulations governing any applicable taxability, tax reporting and/or withholding of taxes on the University's educational assistance programs. **The value of any taxable tuition benefits will be added to the employee's taxable income and be subject to all employment tax withholdings during the semester the benefit is credited.**

Please refer to IRS Publication 970 or consult with your tax advisor for additional details.