

WESTERN MICHIGAN UNIVERSITY

FAQ: Taxation of Employee Tuition Benefits

1. Is tuition discount received by an employee a taxable benefit?

Undergraduate tuition discount received by a benefits-eligible WMU employee is not a taxable benefit.

Graduate tuition discount is taxable to the employee only after the benefit exceeds the IRS limit of \$5,250 in a calendar year. Only the excess amount over the \$5,250 is taxable.

2. Is the 75% undergraduate tuition remission I receive for my spouse, children, or designated other individual taxable?

- Remission to legal spouses and children who are your dependents for federal tax purposes is not taxed.
- Remission given to children who are *not* your dependents for federal tax purposes is taxable.
- Remission given to a designated other individual who is not your legal spouse is also taxable.

3. My child lives with my former spouse and is a tax dependent on my former spouse's tax return but is covered on my health insurance. Is the remission benefit still tax-free to me?

Yes, the Internal Revenue Code provides an exception for children of divorced parents.

4. How am I taxed on the benefit received?

As required by the IRS, any taxable tuition benefit is recorded as additional compensation and the taxes are withheld from your paychecks over the course of the semester. Your total taxable benefit is split over 4 payroll checks. For example: if your taxable benefit is \$3500 you will be taxed on an additional \$875 for each of the 4 pay periods.

5. When are taxable benefits assessed?

The taxable benefit received is reviewed and assessed each semester following the drop and add period.

6. What impact will the taxable benefit have on my pay?

The effect on your net pay cannot be calculated in advance by the payroll area. You can estimate it on your own by computing your federal withholding (see Circular E tables at www.irs.gov) and then add FICA at 7.65% and Michigan withholding at 4.25%. Federal withholding can vary due to income level, number of dependents, marital status, etc.

Alternatively, paycheckcity.com has a tool that can be used to estimate the change in your net pay using your most recent regular pay stub, then add the expected taxable tuition benefit and compare the change in tax deductions.

Please note, during these pay periods, your NET pay will be less than your normal expected pay.

7. Who do I contact with questions on taxability of tuition benefits?

Contact Carol LaLonde in Corporate Reporting and Taxation via email at carol.lalonde@wmich.edu.

