

System-wide Policy:	
FI0910 - Taxability of Graduate Tuition Waiver for Employees	
Version: 2	Effective Date: 07/20/2018

FI0910 – Taxability of Graduate Tuition Waiver for Employees

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Objective:

The purpose of this policy is to ensure compliance with applicable tax laws with respect to graduate fee waivers provided by the University. Graduate fee waivers provided to individuals other than benefits-eligible employees and graduate assistants are not qualified under The University of Tennessee Section 127 - Graduate Educational Assistance Plan ([UT127PLAN.pdf](#)) and may represent additional income to those individuals. University campuses and institutes are responsible for capturing and reporting the value of these fee waivers to the System Payroll Office to facilitate the proper withholding and reporting of payroll taxes.

Policy:

Introduction

1. All Graduate tuition and fee waivers are taxable to the individual unless exempt under the Internal Revenue Code.
2. Under the University's Educational Assistance Plan that is in compliance with Internal Revenue Code (IRC) §127, \$5,250 per calendar year (January to December) in graduate tuition fee waivers provided to benefits-eligible employees and graduate assistant (GAs) are excluded from taxable income. If the amount of the fee waiver exceeds \$5,250, the excess is deemed income

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under the IRC and taxed accordingly unless another exclusion under the Internal Revenue Code applies to the excess amount (see below).

Non-Taxable Graduate Fee Waivers

3. IRC allows the exemption from taxation of tuition waivers above \$5,250 for individuals whose education is job-related (§132). To claim the exemption, individuals must provide a signed Employee Request for Job Related Tuition Waiver form, approved by the department head verifying that the program of study directly relates to the employee's current job, the course(s) improves or maintains the employee's job skills, and the course(s) does not qualify the individual for a new trade or business. Often, courses needed for acquiring a license or certificate are considered to be leading to a new trade or business and thus, do not qualify for the job-related exclusion. This form must be received by the System Payroll Office for each semester. Due dates for the forms are as follows:
 - a. Spring Semester – February 15
 - b. Mini-term – May 15
 - c. Summer – June 15 (first); July 15 (second)
 - d. Fall Semester – September 15

A form will be required for each summer session. Late forms will be acceptable as long as they are submitted within the current calendar year. Any adjustments will be processed on the next regularly scheduled pay period. Graduate assistants may qualify for job-related education provided the necessary criteria are met.

4. IRC allows the exemption from taxation of tuition waivers above \$5,250 for graduate students conducting teaching or research activities (§117). The University considers a Graduate Teaching Assistant/Associate (GTAs) or Graduate Research Assistant (GRAs) as a graduate student who is involved in the following teaching or research activities:

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TEACHING: For University tax purposes, teaching activities may include, but are not limited to, the following: advising students and providing or coordinating classroom instruction, including lab or discussion sessions; tutoring students; grading tests and assignments; developing instructional materials; providing artistic instruction; accompanying/coaching musical or vocal performances; or proctoring exams. Only advising students will not qualify as a teaching activity.

RESEARCH: For University tax purposes, research activities may include, but are not limited to, the following examples of applying and mastering research concepts, practices, or methods of learning: conducting experiments; organizing or analyzing data; presenting findings; collaborating with others in preparing publications; performing activities that are specific to the course of study and directly applicable to student’s research, thesis or dissertation; and conducting institutional/departmental research for an academic or administrative unit.

Assessment of Graduate Fee Waivers

- Once the \$5,250 limit has been exceeded for non GTA-GRA employees (tracked by IRIS), the taxable portion of the graduate fee waiver will be added to taxable income and all applicable employment taxes will be withheld (unless exempt as noted above). Federal Income Taxes will be withheld on the combined taxable wages and fee waiver value using the IRS tax table rates and the employee’s signed W-4. To help relieve the tax burden on the employee, the taxable value of the waiver will be allocated to employee checks based on the following schedule:

Spring	February (1/3), March (1/3), April (1/3)
Mini-term	May (100%)
Summer	June (1/2), July (1/2)
Fall	September (1/3), October (1/3), November (1/3)

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6. At designated intervals, the System Payroll Office receives a file from each campus that includes graduate fee waivers processed for that campus. The file is analyzed to determine the appropriate tax treatment of the waiver provided to employees. The following text will appear on the employee's advice identifying how the waiver was treated for tax purposes:
 - a. **GR Waiver nontax** – Non-taxable graduate fee waiver given to a GTA or GRA
 - b. **GR Waiver Job Exclud** – Graduate fee waiver meeting the job related requirements of IRS Code Section 132. Signed Employee Request for Job Related Tuition Waiver form must be sent to the System Payroll Office each semester to claim this exemption.
 - c. **GR Waiver Excluded** – Graduate fee waiver under the annual \$5,250 tax free tuition benefit allowed under IRS Code Section 127
 - d. **GR Waiver taxable** – Graduate fee waiver provided to GA or regular employee in excess of the tax free \$5,250 allowed by IRS Code Section 127
7. It is intended that this policy conform to the applicable provisions of Internal Revenue Code. Nothing in this policy shall be construed to confer eligibility for benefits for which an employee is not otherwise eligible under federal law, policy or practice. The University reserves the right to amend this policy at any time without notice to conform with applicable laws and regulations.

FORMS:

- [Employee Request for Job-Related Tuition Waiver](#)

FOR MORE INFORMATION:

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OTHER:

- The University of Tennessee Section 127 - Graduate Educational Assistance Plan ([UT127PLAN.pdf](#))

Related Policies: [HR0330 - Educational Assistance \(Fee Waiver\)](#), [F10900 - Fringe Benefits Provided to Employees](#)