

Tuition Remission Taxation Policy

University of Detroit Mercy offers employees the opportunity to pursue higher education free of charge (remission) for both undergraduate and graduate coursework, and additionally, providing free undergraduate tuition (remission) and graduate tuition reduction for dependent spouses and children. While undergraduate tuition remission is not taxed, the Internal Revenue Service has ruled that the graduate tuition benefit is taxable income.

WHY IS TUITION REMISSION TAXED?

In general, IRS regulations consider anything of value provided to an employee by an employer to be a form of compensation. All compensation must be reported as taxable wages and is subject to income tax withholding, unless specifically excluded by the Internal Revenue Code.

Under section 117(d) of the Internal Revenue Code, educational institutions offering financial educational assistance (tuition remission/reduction) to employees, their dependent spouses and children for undergraduate coursework may exclude the value of this education from their employees' taxable wages. The exclusion under this section *does not extend to graduate coursework*.

Section 127 of the Code allows all employers, whether or not they are an educational institution, to provide their employees with educational assistance for both undergraduate and graduate work. Employers may provide each employee with up to \$5,250 of educational assistance per year on a tax-free basis. The tuition remission that the University offers employees for graduate-level education is eligible for this exclusion. The Internal Revenue Code requires that educational assistance in excess of the \$5,250 exclusion must be added to employees' taxable wages and employment and income taxes must be withheld.

WHAT DOES THAT MEAN FOR ME?

As an employee, if you are taking graduate level coursework, you will be subject to tax on the value of the tuition received, less any aid, and less the \$5,250 educational assistance per IRS regulations. If a dependent spouse or child is taking graduate level coursework, you will subject to tax on the value of the tuition received; less any aid. Such spouses and children are not eligible for the \$5,250 educational assistance.

HOW IS THE BENEFIT DETERMINED AND TAXED?

Payroll will receive a summary of graduate tuition benefit for employees, spouses and children at the beginning of each term. The amount of taxable income will be calculated, and will be spread out over the number of pay periods in the term, as the taxation must occur in the term that the tuition (benefit) is received per IRS regulations. Employees will be notified at the beginning of each term as to the amount of additional tax withholding.

Income earned in addition to (supplemental) your regular salary is subject to the highest tax rate that you pay, and taxable graduate tuition remission is considered supplemental income. The IRS defines a flat supplemental tax withholding rate to be used for income over and above an employee's regular salary, which is pegged to the middle tax rate of the IRS graduated tax tables. This is currently set at 22%.

We cannot change the rate of withholding on this additional income. If you feel that your total federal income tax withholding for the year will exceed your tax liability, you may submit a new W-4 Form to Payroll changing the number of exemptions you claim. Please see IRS Publication 919, available on the [IRS](#) website, for instructions on how to estimate your income tax liability and update your W-4 Form.

Example:

An employee receives \$7,980.00 in graduate tuition remission for Term 2. The one time annual employee assistance reduction of \$5,250.00 is applied, resulting in a taxable value of \$2,730.00. This \$2,730.00 will be added to income and reported on form W2 and taxes will be withheld during the term that it is received (Term 2). The total calculation is as follows:

HOW MANY TIMES WILL DEDUCTIONS OCCUR WITHIN THE TERM? Typically the deductions are spread over 7 pays within the term. If you are taking courses in terms Summer 1 and/or Summer 2, they will be withheld as if you were enrolled in Term 3 classes and spread over 7 pays. Please be aware that the number of pays can vary due to when information has become available and is able to be processed.

Should you register late, add or drop a class, the corrections will be made within the term of the correction, you will be notified of the tax change and you will complete the taxation for the term as if you had not made any changes to your class load.

City of Detroit Resident		
Graduate tuition remission		7,980.00
One-time annual employee assistance		(5,250.00)
Additional income (taxable amount)		2,730.00
Additional income spread typically over 7 pays		390.00
Tax	Rate	Amount
Social Security	6.20%	169.26
Medicare	1.45%	39.59
Federal	22.00%	600.60
State of MI	4.25%	116.02
City of Detroit	2.50%	68.25
Total taxes	36.40%	993.72
Spread over typically 7 pays		141.96

City of Detroit Non-Resident		
Graduate tuition remission		7,980.00
One-time annual employee assistance		(5,250.00)
Additional income (taxable amount)		2,730.00
Additional income spread typically over 7 pays		390.00
Tax	Rate	Amount
Social Security	6.20%	169.26
Medicare	1.45%	39.59
Federal	22.00%	600.60
State of MI	4.25%	116.02
City of Detroit	1.25%	34.13
Total taxes	35.15%	959.60
Spread over typically 7 pays		137.08