

Taxability of MSW Scholar Tuition Benefits for DSS Employees

DSS employees selected as MSW Scholars receive full tuition, approved fees, and a book allotment each semester of the program. The Internal Revenue Service has ruled that employer provided tuition benefits in excess of \$5,250 are considered as additional taxable income. (Section 127 of the IRS Tax Code)

Employees are encouraged to plan for this taxation to be deducted from their paycheck once they've reached the \$5,250 threshold. (typically, towards the end of the calendar year but may be sooner, depending on each individual situation) DSS Human Resources and Finance coordinate with the university to process invoices and make payments as soon as possible each semester. Employees are encouraged to speak with a tax professional regarding their personal annual tax liability in order to plan ahead for the larger payroll deductions that will lower their take home pay. DSS cannot give tax assistance or advice.

Example:

Tuition Benefit	Tuition Paid on Employee's Behalf	\$ 8,500.00
	Amount Excluded from Income	\$ 5,250.00
	Net Amount of Taxable Income	\$ 3,250.00 *
* this is the amount that will be added to your paycheck for purposes of calculating/withholding taxes only. It is NOT additional income.		

Regular Pay	Employee's Regular Gross Pay	\$ 2,700.00
	Estimated Taxes withheld	\$ (594.00)
	Employee's Regular Net Pay	\$ 2,106.00

Regular Pay plus Tuition Benefit	Employee's Regular Gross Pay	\$ 2,700.00
	Plus Taxable Income from Tuition Benefit	\$ 3,250.00 *
	Amount to Calculate Taxes on	\$ 5,950.00
	Estimated Taxes withheld	\$ (1,309.00)
	Employee's Updated Net Pay	\$ 1,391.00
* this is the amount that will be added to your paycheck for purposes of calculating/withholding taxes only. It is NOT additional income.		

Estimated Reduction in Employee's Net Pay \$ (715.00)

NOTE: This example is for illustrative purposes only. Each employee's pay, tuition benefit, tax withholding, voluntary deductions, and tax liability is different. As suggested, each employee is strongly encouraged to seek the advice of a tax professional regarding their individual situation.

W-2 Form

The additional tuition benefit paid on your behalf will be reported on the W-2 Form. Also, MSW Scholars could periodically review their W-4 Forms and make any adjustments as necessary to their payroll deductions.

FAQ's:

Why can't my MSW Scholar tuition benefits be considered as a "working-condition fringe benefit"?

The IRS has determined that employer provided tuition benefits do not qualify as working condition fringe benefits. These tax treatments are covered in other sections of the tax code. [e.g. § 117(d) or § 127](FSA 200231016, August 2, 2002, IRS Office of Chief Counsel). Therefore, DSS must report as additional income tuition benefits provided in excess of the \$5,250 limit.

Will my taxes withheld be adjusted if I drop or add a course?

The MSW Degree Plan typically includes a 6 semester hours per semester part-time academic load with prescribed-required courses published for each semester of the program. However, payroll taxation adjustments may be made as necessary with advance notice.

Can I extend the published payroll tax deduction time frame? Tuition benefits must be taxed when received. Since DSS is paying the University directly on your behalf, the tuition becomes taxable at the point the tuition is paid by DSS to the University.

Can DSS payroll record my tuition benefit on my W-2 but not withhold any additional taxes? When I file my annual return, I will report the additional income at that time. Tuition benefits must be reported when received and may not be deferred. DSS is required to withhold taxes for this additional income as it is received.

Why can't DSS make an annual estimate of my tuition benefits and spread out the deductions for the full year? A taxable event does not exist until the time in which the tuition benefit is received and when the \$5,250.00 threshold is crossed.

Why are the most taxes taken out at the end of the year? MSW Scholars typically (though not always) don't reach the \$5,250 tuition benefit threshold until later in the year. Therefore, the most taxes will be taken out at that time. Employees are encouraged to plan for this end of the year higher taxation.

**Take home pay could potentially be hundreds of dollars less.