**Taxability of Tuition Remission for Employees**

Colorado College encourages employees to further their education and provides tuition remission through the College’s [Education Assistance Program](https://www.coloradocollege.edu/basics/welcome/leadership/policies/education-assistance-program). This benefit is offered for both undergraduate and graduate level coursework. While undergraduate tuition remission is generally not taxed, graduate level tuition remission may be taxed. Additional information on eligibility is available on the [CC Education Assistance Benefits website](https://mybensite.com/coloradocollege/index.php?box=Education%20Assistance&section=Education%20Assistance&page=Education%20Assistance&type=w&ref=educ-welcome&img=).

**When is Tuition Remission Taxed?**

Colorado College employees receiving tuition remission benefits **for their own, their spouse's, or their eligible dependent children's undergraduate studies** receive that benefit on a tax-free basis.

Colorado College employees receiving tuition remission benefits **for their domestic partner's or children of domestic partner’s undergraduate studies** are taxed on the full value of the benefit.  The additional taxable income and tax withholding will be reflected on the employee’s paycheck.

Colorado College employees receiving tuition remission benefits **for their own graduate-level studies** receive that benefit on a tax-free basis up to a maximum of $5,250 per calendar year.  Any excess tuition remission received is taxable to the employee unless the classes are either required as a condition of employment **OR** would maintain or improve skills needed for the current position **AND** will not qualify the employee for a new trade or positon. The Tax & Compliance Manager in conjunction with the employee’s supervisor will determine whether these conditions are met and whether or not the excess over $5,250 is taxable.

Colorado College employees receiving tuition remission benefits **for their spouse's, their domestic partner's, their domestic partner’s children, or their child's graduate-level studies** are taxed on the full value of the benefit.  The additional taxable income and tax withholding will be reflected on the employee’s paycheck.

Colorado College offers employees the opportunity to spread the tax withholding over multiple pay periods to reduce the financial burden to the employee. Please contact the [Tax & Compliance Manager](mailto:Tax.Compliance@coloradocollege.edu) to discuss your individual situation.

Colorado College’s Education Assistance Program also offers tuition remission benefits to retirees. The taxability of these benefits is determined in the same manner as tuition remission benefits offered to employees.

**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 IRC section 117(d) of the Internal Revenue Code, educational institutions offering a full reduction of tuition charges to employees, their spouses and dependent 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 or domestic partners and children of domestic partners**.

IRC Section 127 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 College 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 taxes must be withheld. **The exclusion under this section does not extend to spouses, dependents, domestic partners and children of domestic partners**. The College does offer graduate assistance to spouses and domestic partners in CC’s MAT program, however as the exclusion under Section 127 of the IRC only applies to employees of the College, 100% of the benefits provided to spouses and domestic partners is considered taxable income.

IRC Sections 132(d) and 162 describe working condition fringe benefits and apply to the **employee** only. These IRC Sections may be applied if an employee receives tuition remission for graduate courses over $5,250 and the class was required as a condition of employment **or** would maintain or improve skills needed for the employee’s current position **and** will not qualify the employee for a new trade or position.

**How are the taxes calculated on taxable Tuition Remission?**

Taxable tuition remission is subject to Federal, Colorado, Social Security and Medicare taxes. The tablebelow shows how the taxable tuition remission and taxes are calculated and reported on Form W-2 for a tuition benefit worth $5,000 over the $5,250 graduate level exclusion for an employee.

**Example:**

An employee who has received $10,250 in tuition remission benefits for graduate-level coursework and does not meet the requirements for the fringe benefit exclusion in IRC Sections 132(d) and 162 would have $5,000 of additional taxable income reported in boxes 1, 3 and 5 of his/her W-2 ($10,250 tuition remission received less $5,250 exclusion) at the end of the year.

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| **Type of Tax** | **W-2 Box** | **W-2 Additional Taxable Wages** | **W-2 Box** | **Additional Tax Withholding** | **Tax Withholding Percentage** |
| Federal | 1 | $ 5,000.00 | 2 | $ 1,250.00 | 25% (Supplemental withholding rate) |
| Social Security | 3 | $ 5,000.00 | 4 | $ 310.00 | 6.2% up to applicable annual wage limit |
| Medicare | 5 | $ 5,000.00 | 6 | $ 72.50 | 1.45% |
| Colorado | 16 | $ 5,000.00 | 17 | Varies | Dependent on current W-4 |