EMPLOYEE/DEPENDENT SCHOLARSHIP AND TUITION REDUCTION TAXABILITY

DECISION TREE

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Scholarship or tuition reduction awarded to employee or eligible family member (as defined by USU Policy 350).

Does the scholarship / tuition reduction (or a portion) represent payment in exchange for past, current or future services? IRC 117(c); Regs. 1117-2(a) and Regs. 1117-4(c) (E)

Taxable compensation. Reported on W-2 and/or Form 1042-S for non-resident alien.

Employee Yes

No

Eligible Family Member

Does the total benefit exceed $5,250 per year? If no, non-taxable. IRC 127(a) (2) (A)

Graduate Yes

No

Tuition Reduction Scholarship

Is the recipient a teaching or research assistant at USU (and already compensated via Payroll for those services)? IRC 117(d) (2) and (5) (D)

Yes

Undergraduate

No

Scholarship

Is this a qualified scholarship, e.g., for required tuition, fees, books, etc.? IRC 117(b) (F)

Yes

Yes

Taxable fringe benefit. Reported on employee's W-2

No

Qualified tuitions reductions for teaching or research graduate assistants are not taxable. Reported as an adjustment to total reported in Box 2 on Form 1098-T.

Qualified scholarship reported on Form 1098-T, Box 5.

Is education job-related, to maintain or improve job skills or required to retain their current position? (B) (C)

No

Yes

Not taxable as working condition fringe benefit. Must be documented to substantiate purpose. IRC 132(j) (8)

Taxable income, but not reportable on W-2 for U.S. Citizens and resident aliens (IRS Notice 87-31). Notify recipient of possible tax implications and report on Form 1098-T, Box 5. For non-resident aliens, possibly subject to tax and report on Form 1042-S.

Was the education job-related, to maintain or improve job skills or required to retain their current position? (B) (C)

Yes

No

Qualifications are not taxable. All scholarship reported on Form 1098-T, Box 5.

Yes


Not taxable as working condition fringe benefit. Must be documented to substantiate purpose. IRC 132(j) (8)

No

All amounts in excess of $5,250 constitute taxable fringe benefit. Report on employee's W-2 IRC 127.

(B) To constitute a working condition fringe benefit, the education cannot be meet the minimum educational requirements for the position (even if the employee is currently filling that position) and cannot qualify the employee for a new trade or business.

(C) Per the IRS Fringe Benefit Guide (January 2014), "If the tax treatment of an educational expense is expressly provided for in a specific Code section, then it is not covered by IRC 132." Therefore, rule out all other sections of Code before consideration of working condition fringe benefit.

(D) This has been narrowly interpreted to apply only to teaching and research assistants who are graduate students, not to faculty/staff engaged in research or teaching. (PLR 9040045, 1990 WL 70055)

(E) Example: in addition to the half tuition reduction per Policy 350, an employee receives a scholarship from his/her supervisor for doing a good job (the scholarship is tied to services)

(F) Since all recipients are attending USU, an accredited educational institution that provides a program for bachelor's or higher degree, all qualify under the provision that stipulates "degree seeking".

(A) Unless IRC 127 (qualified educational assistance plan) is applicable (IRS Memorandum 20103901F), IRC 132 (working condition fringe benefit) would not be applicable. If IRC 117(d) section cannot be applied, then, IRC 132 is also not applicable. (Field Service Advice 200231016)