



# MISSISSIPPI STATE UNIVERSITY™

## **Internal Revenue Code (IRC) §127 Plan**

All Graduate tuition remission is taxable unless exempt under the Internal Revenue Code.

Under the University's Educational Assistance/Tuition Remission Plan that is in compliance with Internal Revenue Code (IRC) §127, \$5,250 per calendar year (January to December) in graduate tuition remission provided to benefits eligible employees and graduate assistant (GAs) are excluded from taxable income. If the amount of the remission exceeds \$5,250, the excess is deemed income under the IRC and taxed accordingly.

The additional withholding may create a financial hardship, unfortunately MSU is required by law to withhold tax on the excess amount of the tuition remission and report this amount on Form W-2.

IRC allows the exemption from taxation of tuition remission above \$5,250 for individuals whose education is job-related (§132) or graduate students conducting teaching or research activities (§117). The University considers a Graduate Teaching Assistant (GTAs) or Graduate Research Assistant (GRAs) as a graduate student who is involved in the following teaching or research activities:

**TEACHING:** For University tax purposes, teaching activities may include, but are not limited to, the following: 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; and proctoring exams.

**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 scholarship: conducting experiments; organizing or analyzing data; presenting findings; collaborating with others in preparing publications; and conducting institutional research for an academic or administrative unit.

Individuals must provide a signed **Employee Request for Job Related Tuition Remission** form, approved by the department head verifying that the program of study is "job related". If so, the remission is excluded from taxation. The form is available at <http://www.controller.msstate.edu/forms/>. This form must be received by the Tax Compliance Officer by September 15, 2014.

Effective January 1, 2014, Federal Income Taxes will be withheld on the combined taxable wages and remission 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 remission will be allocated to employee checks based on the following schedule for the Fall Semester:

- a. October (1/3)
- b. November (1/3)
- c. December (1/3)

## **FAQ - Taxation of Graduate Tuition Remission**

### **1. What benefits are provided under the Section 127 Plan?**

The Section 127 plan is intended to provide favorable tax benefits only. The plan will exclude from taxation graduate-level courses provided by the University to eligible employees, up to a maximum of \$5,250 per calendar year. Although most educational benefits currently available to employees are already exempt from taxation under other provisions of the Internal Revenue Code (IRC), the Section 127 plan provides relief from taxation for those employees whose graduate-level educational benefits are not covered under other Code provisions.

### **2. Who will benefit under the Plan?**

Employees enrolled in graduate-level courses under the tuition benefit policy or other professional development programs that are not job-related will benefit from the Plan. The value of such courses will not be taxed, up to the \$5,250 annual limit. Employees enrolled in non-job-related graduate courses taken for professional development at another educational institution are also covered by the Plan and will not be taxed on the value of those courses, subject to the annual limit.

### **3. What kinds of graduate courses are covered under the Plan?**

The Plan covers graduate-level courses of a kind normally taken by an individual leading to a law, business, medical, or other advanced academic or professional degree. Covered courses do not include courses or other education involving sports, games, or hobbies.

### **4. Are any undergraduate courses covered under the Plan?**

No. Undergraduate courses provided by the University to employees are excluded from taxation under IRC section 117.

### **5. Why are job-related courses not covered under the Plan?**

Job-related courses are already exempt from taxation under IRC section 162. Thus, only courses taken for professional development that are not directly related to an employee's current position are covered by the Plan.

**6. What is the definition of a job-related course?**

A job-related course is a course taken by an employee either to maintain or improve skills required in the employee's current job; or to meet the express requirements of the employer; or the requirements of law or regulations, imposed as a condition to retaining the employee's salary, status, or employment.

**7. Are Section 127 educational benefits reportable on the Form W-2?**

No. The instructions for Form W-2 provide that payments qualifying under a Section 127 educational assistance program are not reportable in box 1 as wages. Only remission or reimbursements (for non-job-related graduate courses) in excess of the \$5,250 annual exclusion limit would be reported on the Form W-2 as taxable compensation, subject to withholding. Accordingly, such excess amounts should be paid through the payroll system.

**8. What are the requirements for a Section 127 Plan?**

Section 127 requires that an employer prepare a separate written plan for the exclusive benefit of its employees to provide such employees with educational assistance.

In addition, eligible employees must be provided reasonable notification of the availability and terms of the plan and the plan must not discriminate in favor of highly compensated employees. Section 127 does not require the educational assistance program to be funded.

**9. May benefits be provided on a retroactive basis?**

No. Section 127 requires that employees be provided with reasonable notice about the benefits available under the plan. If benefits are provided before the plan is in effect, employees have not been provided with the requisite notice.

**10. Are there any IRS information reporting requirements related to 127 Plans?**

No. The IRS has indefinitely suspended data related to the administration of a plan. (IRS Notice 2002-24).