

Executive Summary

Staff Graduate Tuition Benefit

Staff Concern

Recent changes in process and communications regarding taxation of the staff tuition benefit have resulted in increasing numbers of staff facing tax penalties. This can, and has, resulted in upwards of 30-50% of paycheck reduction over the course of several paychecks.

Recommendations for Improvement:

- The Office of Payroll Services discontinue the evaluation of graduate coursework for tax exclusion on the employee graduate tuition benefit exceeding \$5,250; the responsibility for determining tax liability would be better suited with the individual employee.
- Make the changes effective beginning Autumn semester 2016. Employees currently in degree-granting graduate programs should continue to have the opportunity to apply for tax exclusion until they've finished their current program, or for two additional years, whichever occurs first.
- The Office of Payroll Services allow tuition benefit taxes to be spread over three paychecks for monthly employees and six paychecks for biweekly employees to lessen the financial hardships on staff members.

USAC would like to partner with the Office of Business and Finance, the Office of Human Resources, and University Communications to create a communication plan regarding the change in process of coursework evaluation. The communication plan would include the following USAC recommendations:

- Create a webpage (example: <http://go.osu.edu/gradtax>) that will contain all information and resources pertinent to this topic area.
- Make academic advisors, admissions counselors, and other staff of graduate programs aware of this webpage so they can appropriately advise staff members. Any OSU material which advertises or mentions the tuition benefit for OSU employees would include a link to this webpage to help employees understand the tax implications of using the graduate tuition benefit.
- Require that within the Student Information System, staff members taking graduate level coursework must certify that they understand that their tuition benefit will be subject to taxation unless further action is taken by the staff member before enrollment in graduate level courses.
- Update recruitment tools to include necessary information for new employees to ensure awareness of financial implications from moment of on-boarding.

The graduate tuition assistance program is a tremendous and valuable benefit for OSU employees. We believe our recommendations will improve this benefit for staff members.



USAC Special Report

Staff Graduate Tuition Benefit

Tuition Benefit for University Staff Members

The Tuition Assistance Benefit for faculty and staff pays the instructional, general, and non-Ohio resident fees for eligible employees who take courses at Ohio State for both undergraduate and graduate courses, up to 10 credit hours per semester¹. Employees use the benefit to maintain and improve their skills as well as to learn new skills. Staff can take courses at Ohio State either as part of a degree program or singularly for professional development. Some employees take courses for avocation, such as learning foreign languages or exploring the arts.

The Tuition Assistance program benefits the employee by making their skill set more marketable and providing them with the knowledge and skills to improve their performance at Ohio State. This allows the university to expand the skill sets of existing employees as well as to develop their skills to transition into more senior and leadership positions. The program gives the university a valuable benefit to attract highly skilled and sought after talent.

Tax Liability on Graduate Tuition Benefit

The payment of graduate level tuition by the Tuition Assistance program above the amount of \$5,250 is considered a taxable benefit by the IRS.² In most cases, the IRS requires Ohio State to withhold payroll taxes from an employee's paycheck to pay the liability on the amount of taxes due for the benefit. The IRS does allow for certain coursework to be excluded from incurring the tax liability.

As defined by the IRS in Chapter 11 of Publication 970, if the coursework relates to an employee's current position, does not teach the employee a new skill but rather reinforces or improves a current skill, and will not potentially qualify the employee for a new job, trade, or practice, then the coursework meets the criteria for tax liability exclusion and the employee is not taxed on the benefit. All courses must be evaluated individually unless the employee is in a degree-granting program where the degree will qualify the employee for a new job, trade, or practice.

Current Process for Exclusion Evaluation

Any employee who believes their classes qualify for exclusion under Section 132(d) of the Internal Revenue Code can complete the exemption application form, found on The Ohio State University Office of Controller website, for review by the Office of Payroll Services (see Appendix A).

In addition to the completed form, employees must also submit their position description and course descriptions from the Registrar's scheduling Course Bulletin to the payroll office by predetermined

¹ The Ohio State University, Office of Human Resources. (January, 2015). Benefits Overview Book, pg. 30.

² Internal Revenue Service. (2014). *Publication 970: Tax Benefits for Education*. Retrieved from <http://www.irs.gov/pub/irs-pdf/p970.pdf>.



deadlines each semester. Late forms are not accepted. Failure to complete this form results in taxation of all courses.

Under the Office of Business and Finance, the Office of Payroll Services currently reviews all completed exclusion request forms, degree programs, and job descriptions to verify if the employee qualifies for the exclusion. USAC met with the Director of Payroll Services on August 25, 2015, to gain information about the current process for evaluation, depicted in Appendix B.

In the current process, the degree program is the first item that Payroll Services reviews. If that degree program could allow the employee to receive a new job, the employee does not qualify for the exclusion and is automatically taxed for every class throughout the duration of the program once the total tuition expense exceeds \$5,250 for a calendar year. The degree programs that are automatically excluded are JD, MD, PhD, MSW, and MSN. This also includes any employees who are seeking a degree not clearly related to their current position. For example, a Physical Therapist that does not have any direct reports that would like to take MBA coursework would be taxed for every class in the MBA program (over \$5,250 annually) because they not have business management responsibilities in their current position.

If the degree program qualifies for the potential exclusion, each course is evaluated every semester to determine if it is related to the employee's current position based on the job description and course description submitted with the exclusion form. This process of evaluating each class is an IRS rule.³ If payroll finds that the specific course is related to the employee's current job, the employee will be granted an exclusion. If the Office of Payroll Services does not determine that the course is related, then the employee is taxed for that specific course if the employee is over the \$5,250 threshold for the calendar year.

After the review process, the employee receives an email from the Office of Payroll Services with their determination. There are no published timelines on when this communication will occur; however, Payroll Services has indicated they are working to try to communicate this information sooner. Currently, employees are notified several weeks into the semester in which they have applied with the determination of their waiver status. The timing leaves the employee without the option of dropping or finding a new course in which to enroll. This is partly due to the deadline to submit the form for review as well (Appendix C). Employees receiving a waiver denial have very limited time before the tax liability adversely impacts their paycheck.

There is not currently a formal appeal process for employees who disagree with the determination of Payroll Services. From the data USAC gathered from staff across the university, employees are currently emailing back and forth with Payroll Services to state their case on why they believe it qualifies and providing any other information requested such as a syllabus for the course in question.

³ Internal Revenue Service. (2015). *Publication 15-B: Employer's Tax Guide to Fringe Benefits*. Retrieved from <http://www.irs.gov/pub/irs-pdf/p15b.pdf>, pg.21.



Opportunities for Improvement with the Current Process

USAC has received spirited feedback regarding the current process for the evaluation of coursework for tax exclusion and payroll withholding of the tax liability. The concerns fall into two broad categories: evaluation and communication.

Evaluation

Many of the comments received by USAC relate to employees not understanding the current process used by the Office of Payroll Services to determine if the coursework meets IRS standards for tax exclusion. In addition to the confusion of the IRS standards, the office has been granting fewer and fewer exclusions each semester. In Autumn semester 2014, the Office of Payroll Services granted exclusions for 78% of employees who asked for their coursework to be evaluated. In Autumn semester 2015, exclusions were granted for 36% of employees who asked for their coursework to be evaluated. Employees have reported being unsure why they were granted exclusions previously, but are now told they are not eligible.

Further, employees have also reported they were denied exclusions while coworkers in the same (or very similar) position and in the same academic program have received tax exclusions. If an employee disagrees with the Office of Payroll Services assessment of exclusion, employees have reported they are unaware that they can still claim a deduction on their taxes for the benefit.

Communication

USAC has also received feedback that employees were not informed that they will be responsible for taxes on the tuition benefit dollar amount above \$5,250 per year for graduate level classes until after they have been accepted into graduate school and signed up for graduate level classes. Although information regarding the tax liability is available online, an employee is able to sign up for graduate level classes without ever being directly notified about the potential tax liability.

Employees are unsure of the exact dollar amount which will be withheld from paychecks. The Office of Payroll Services is able to inform the employee of the amount of the benefit, but not the amount which will be withheld from their paycheck. Not knowing the amount of one's take-home pay causes employees considerable difficulty in planning their monthly budgets with the average take home pay reduced by 30-55% in most cases.⁴ Several employees supplied personal examples with take home pay dropping from \$2,975 per month to \$1,295 for two consecutive months. The impact grows when an employee takes courses year round and is taxed at this level for 6 months of the calendar year.

In the current process, the application for exclusion forms are not due until after the deadline to drop courses, not allowing an employee to drop a course if it does not qualify for exclusion. Even if an employee submits the forms well in advance of the deadline, the employee is not notified until after the drop deadline, and oftentimes after the conclusion of seven week courses. This scenario gives employees no option to drop the class if they thought it would be covered under the exclusion. This results in the student being obligated to take the course and face the tax penalty, or drop the course and pay a tuition fee. The timeline for review does not align with the academic calendar.

⁴ Assuming standard deductions and maximum allowed tuition benefit of \$9,640 per semester.



Staff members have shared their frustration with USAC, as well as their coworkers who may also be considering using the graduate tuition benefit. We have also heard from HR professionals in several departments, as well as with many of the faculty and staff in the colleges where students utilize this benefit most frequently. USAC believes that if the current process is unaddressed, it will dissuade OSU employees from using the tuition benefit and could have an adverse effect on hiring, retention, and development of staff.

USAC Recommendations

Based on the information USAC has gathered, USAC has concluded that the current evaluation process is not perceived as fair, consistent, or timely by many staff members taking graduate level courses, and is not an appropriate use of university resources. At this point, USAC believes that more resources, time, and energy spent trying to improve the current evaluation process may not yield a significantly better process given that the tax liability to the University would still exist. The Office of Payroll staff members have indicated that they would like to see the evaluation process terminated, as other universities such as University of Michigan, Purdue University, and Miami University among others, do not offer to evaluate courses for tax exclusion.

- The Office of Payroll Services discontinue the evaluation of graduate coursework for tax exclusion on the employee graduate tuition benefit on the amount over \$5,250. The responsibility for determining tax liability should belong to the individual employee, who can modify their W-4 or their annual tax filing.
- Make the changes effective Autumn semester 2016. Employees currently in degree-granting graduate programs should continue to have the opportunity to apply for tax exclusion until they've finished their current program, or for two additional years, whichever occurs first.
- The Office of Payroll Services allow tuition benefit taxes to be spread over three paychecks for monthly employees and 6 paychecks for biweekly employees to lessen the financial hardships of staff.

Along with the cessation of the evaluation process, USAC proposes further changes to better educate staff members about the graduate tuition benefit taxation issue. **Ceasing the evaluation process without improving communications will be a detriment to the graduate tuition benefit for staff members.**

USAC would like to partner with the Office of Business and Finance, the Office of Human Resources, and University Communications to create a communication plan. The communication plan would include the following USAC recommendations:

- Create a webpage (example: <http://go.osu.edu/gradtax>) that will contain the following information:
 - The graduate tuition benefit above \$5250/year will most likely be subject to taxation.
 - If the graduate work will not qualify staff for a new position, and the work is directly related to their current position, the tuition benefit may be tax exempt.



- If the staff member feels their tuition benefit is tax exempt, the staff member has the option of altering their W-4 or claiming the deduction on their tax returns.
 - If the staff member is unsure how to alter their W-4 or claim the deduction on their tax returns, staff may contact the OSU Employee Assistance Program (EAP) to be referred to a tax professional at a discounted rate through the EAP.
 - If a staff member needs to calculate the amount which will be withheld from their paycheck, they can use the paycheck modeler, without restriction, located at eprofile.osu.edu. Currently, the paycheck modeler is restricted to one use per day.
 - Copies of the HR policy, the IRS code, and all applicable forms.
- Make academic advisors, admissions counselors, and other staff of graduate programs aware of this webpage so they can make potential students who are employees aware of the tax implications of using the graduate tuition benefit. Any OSU material which advertises or mentions the tuition benefit for OSU employees would include a link to this webpage to help employees understand the tax implications of using the graduate tuition benefit.
 - Require that within the Student Information System staff members taking graduate level coursework must certify that they understand that their tuition benefit will be subject to taxation unless further action is taken by the staff member before allowing the staff member to enroll in graduate level courses.
 - Update our recruitment tools to include necessary information for new employees so that they are aware from the beginning of the financial impact if they chose to take graduate courses.

Desired Outcome

USAC believes our recommendations will allow staff to be better informed about the tax liability issues and processes regarding tax exclusion on the graduate tuition benefit. Our recommendations directly address problems expressed by employees and, if implemented, will bring a benefit to both employees and to the university.

If OSU ceases to evaluate coursework for tax exclusion and, instead, the employee makes the determination, then the risk for OSU for granting exclusions is eliminated. This would enable payroll office staff to focus on other duties rather than the current periodic, labor intensive evaluation process.

Having a single and easily accessible webpage explaining the rules for exclusion and the process of excluding the graduate tuition benefit from taxation will give employees the information they need to determine if their coursework meets the IRS criteria, and if so, how to proceed after that determination is made. Further, this webpage will direct employees to the resources to allow them to calculate how the tax liability will affect their paychecks. This will also be a resource to admissions and advising staff at Colleges who are currently without many resources to explain the limitations of the current benefit to student/staff members.

The graduate tuition assistance program is a tremendous and valuable benefit for OSU employees. With a few changes to existing processes and with refocused communications, the program will be an even greater benefit.





Office of Business and Finance
Payroll Services
901 Woody Hayes Dr., Rm. 2050
Columbus, OH 43210-4016

REQUEST FOR JOB-RELATED TUITION ASSISTANCE EXCLUSION

FORM DEADLINES: Spring Semester 2/15, Summer Semester 7/15, Fall Semester 9/20 of the current year. Late forms will not be accepted.

In general, employer-provided graduate level tuition assistance benefits that exceed \$5,250 annually are subject to taxation. However, certain job-related tuition assistance benefits in excess of \$5,250 are not subject to taxation if they meet the requirements of a "working condition fringe benefit" under Section 132(d) of the Internal Revenue Code. Complete this form if you believe all or some of your graduate-level tuition assistance benefits qualify as a working condition fringe benefit (see page 2 of this form for a definition of working condition fringe benefit).

NOTE: A copy of your current job/position description and course descriptions from the Registrar's scheduling Course Bulletin are required. Late forms will not be accepted. Completion of this form does not ensure that tuition assistance benefits will be excludable from taxable income, but it will assist Payroll Services in determining what portion, if any, is taxable.

NAME (Last, First, MI.): _____

OSU ID#: _____ TERM: _____ YEAR: _____

DEPARTMENT NAME: _____ EMAIL: _____

JOB TITLE: _____

Attach your current job description.

TYPICAL DUTIES: _____

ACADEMIC PROGRAM: _____

DEGREE TO BE RECEIVED (IF ANY): _____

REGISTERED COURSE(S): Please do not abbreviate course title(s). Attach course descriptions.

CODE: _____ TITLE: _____ CREDIT HRS: _____

CODE: _____ TITLE: _____ CREDIT HRS: _____

CODE: _____ TITLE: _____ CREDIT HRS: _____

CODE: _____ TITLE: _____ CREDIT HRS: _____

EXPLAIN HOW COURSES RELATE TO YOUR CURRENT JOB: _____

DEFINITION OF WORKING CONDITION FRINGE BENEFIT EXCEPTION FOR EDUCATION:

Under Section 132(d) of the Internal Revenue Code, to qualify for the working condition fringe benefit exception and be excludable from taxable income, job-related tuition assistance benefits must:

- be required by your employer or the law to keep your present salary, status, or job and serve a bona fide business purpose for your employer; OR
- maintain or improve skills needed for your present job.

However, even if the tuition assistance benefits meet one of the above requirements, the benefits are NOT excludable if they:

- are needed to meet the minimum educational requirements of your present trade or business; OR
- are part of a program of study that will lead to qualifying you for a new trade or business*, even if you have no plans to enter that trade or business.

*If you are uncertain whether the coursework qualifies you for a new trade or business, please contact Payroll Services at (614) 292-2311 option 3, or email BF-CTL-PR-Accounting@osu.edu.

EMPLOYEE CERTIFICATION AND SIGNATURE:

I believe that my tuition assistance benefit for the courses on this form qualify for the working condition fringe benefit exception described above and are not taxable, and request the University not to withhold taxes from my compensation attributable to this benefit. I understand that I may be required to supply additional information to confirm job-relatedness. I also understand and agree that the University's approval of my request does not change my responsibility for the payment of any taxes determined by the Internal Revenue Service to be owed if the tuition assistance is determined to be taxable.

Employee Signature

Date

DEPARTMENT CERTIFICATION AND SIGNATURE:

As an administrator of the University supervising the above-referenced employee, I agree and certify that the above information is true and correct.

Authorized Department Signature**

Date

Printed Name

Title

**For an Academic Department, must be signed by the Chair, Senior Fiscal Officer (SFO) or someone above the SFO. For a Business Unit, must be signed by the Director or someone above the Director level.

Please return this form to:

The Office of Business and Finance, Payroll Services
901 Woody Hayes Dr., Room 2050
Columbus, OH 43210
Email: BF-CTL-PR-Accounting@osu.edu

Graduate Tuition Benefit, Appendix B

