Tuition Remission Taxability Examples

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How do I, as an employee, calculate in advance the approximate tax impact of my employee graduate tuition remission?

Current tax law makes the first $5,250 in graduate tuition remission received by employees in a calendar year tax exempt, which means that you pay no taxes on it. Amounts of graduate tuition remission received in excess of $5,250 in a calendar year are taxable. To calculate the approximate tax impact, follow these steps:

1. Estimate the total value of employee graduate tuition remission that you expect to receive over the calendar year. From this amount, subtract $5,250. The result is your **taxable employee graduate tuition remission**.
2. Take your **taxable employee graduate tuition remission** and add it to your estimated salary. This result is your **total estimated taxable compensation**.
3. Take your **total estimated taxable compensation** and find the applicable **Marginal Tax Rate - Federal** corresponding to your filing status. Approximate Federal tax brackets for 2012 follow (note that you should check the internet for the most up-to-date tax brackets by Googling "federal income tax brackets"):

Single	**Married Filing Jointly**	**Married Filing Sep.**	**Head of Household**	**Marginal Tax Rate - Federal**
$0+	$0+	$0+	$0+	10.00%
$8,376+	$16,751+	$8,376+	$11,951+	15.00%
$34,001+	$68,001+	$34,001+	$45,551+	25.00%
$82,401+	$137,301+	$68,651+	$117,651+	28.00%
$171,851+	$209,251+	$104,626+	$190,551+	33.00%
$373,651+	$373,651+	$186,826+	$373,651+	35.00%

4. Perform the same analysis to find your **Marginal Tax Rate - State**. Approximate Oregon state tax brackets for 2012 follow (note that Googling "Oregon tax brackets" will show you the current tax rates for the state):

Single Tax Bracket	**Couple Tax Bracket**	**Marginal Tax Rate - State**
$0+	$0+	5.00%
$3,100+	$6,200+	7.00%

$7,750+	$15,500+	9.00%
$125,000+	$250,000+	10.80%
$250,000+	$500,000+	11.00%

5. Add together your **Marginal Tax Rate – Federal** from the federal tax table (determined in 3. above) and your **Marginal Tax Rate – State** (determined in 4. above), giving you your **Marginal Tax Rate - Total**.
6. Multiply your **Marginal Tax Rate – Total** by your **taxable employee graduate tuition remission** calculated in 1. above. This will give you a conservative estimate (i.e. a high estimate) of the **incremental taxes** that you will owe on your **taxable employee graduate tuition remission**.

Examples:

1. Employee Joan's filing status is single, and she estimates her 2012 salary will be $37,500. She further estimates that she will receive $12,000 in employee graduate tuition remission in 2012. Here are her calculations to estimate her additional taxes on the employee graduate tuition remission that she expects to receive:
    a. **Taxable employee graduate tuition remission** equals $12,000 - $5,250, or **$6,750**.
    b. **Total estimated taxable compensation** equals $6,750 + $37,500, or **$44,250**.
    c. **Marginal Tax Rate – Federal** (remember that Joan's filing status is single) is **25%**.
    d. **Marginal Tax Rate – State** is **9%**.
    e. **Marginal Tax Rate – Total** equals 25% + 9%, or **34%.**
    f. **Incremental taxes** equal 34% x $6,750, or **$2,295**.
2. If Joan was filing as a head of household, with all other facts the same as in example 1, her incremental taxes would be calculated as follows:
    a. **Taxable employee graduate tuition remission** equals $12,000 - $5,250, or **$6,750**.
    b. **Total estimated taxable compensation** equals $6,750 + $37,500, or **$44,250**.
    c. **Marginal Tax Rate – Federal** (remember that Joan's filing status is head of household) is **15%**.
    d. **Marginal Tax Rate – State** is **9%**.
    e. **Marginal Tax Rate – Total** equals 15% + 9%, or **24%.**
    f. **Incremental taxes** equal 24% x $6,750, or **$1,620**.
3. If Joan's filing status was married filing jointly, and her spouse's estimated 2012 salary will be $96,000, with all other facts the same as in example 1, her incremental taxes would be calculated as follows:
    a. **Taxable employee graduate tuition remission** equals $12,000 - $5,250, or **$6,750**.
    b. **Total estimated taxable compensation** equals $6,750 + $37,500 + $96,000, or **$140,250.**
    c. **Marginal Tax Rate – Federal** (remember that Joan's filing status is married filing jointly) is **28%**. Notice, however, that the **28%** marginal tax rate only applies to the portion of income that exceeds $137,301, which is equal to $140,250 - $137,301, or **$2,949**. The remainder of the $6,750, or **$3,801** is taxed at the marginal rate of **25%**.
    d. **Marginal Tax Rate – State** is **9%**.

e. **Marginal Tax Rate – Total** has two components due to the two different federal marginal tax rates. Those components include the $2,949 which is at the 28% marginal rate, and the $3,801 which is at the 25% marginal rate. The marginal tax rate on the $2,949 is 28% + 9%, or **37%**, and the marginal tax rate on the $3,801 is 25% + 9%, or **34%**.
f. **Incremental taxes** equal ($2,949 x 37%) + ($3,801 x 34%), or **$2,383.**

How do I, as an employee, calculate in advance the approximate tax impact of my non-employee spouse's graduate tuition remission?

Current tax law makes all graduate tuition remission received by the spouse of an employee in a calendar year taxable, which means that the employee is required to pay taxes on it. To calculate the approximate tax impact, follow these steps:

1. Estimate the total value of employee graduate tuition remission that you expect your non-employee spouse to receive over the calendar year. This amount is **taxable graduate tuition remission**.
2. Take your **taxable graduate tuition remission** and add it to the sum of your estimated salary your spouse's estimated salary. This result is **total estimated taxable compensation**.
3. Take the **total estimated taxable compensation** and find the applicable **Marginal Tax Rate - Federal** corresponding to your filing status. Approximate Federal tax brackets for 2012 follow (note that you should check the internet for the most up-to-date tax brackets by Googling "federal income tax brackets"):

Single	Married Filing Jointly	Married Filing Sep.	Head of Household	Marginal Tax Rate - Federal
$0+	$0+	$0+	$0+	10.00%
$8,376+	$16,751+	$8,376+	$11,951+	15.00%
$34,001+	$68,001+	$34,001+	$45,551+	25.00%
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$373,651+	$373,651+	$186,826+	$373,651+	35.00%

4. Perform the same analysis to find your **Marginal Tax Rate - State**. Approximate Oregon state tax brackets for 2012 follow (note that Googling "Oregon tax brackets" will show you the current tax rates for the state):

Single Tax Bracket	Couple Tax Bracket	Marginal Tax Rate - State
$0+	$0+	5.00%
$3,100+	$6,200+	7.00%
$7,750+	$15,500+	9.00%
$125,000+	$250,000+	10.80%
$250,000+	$500,000+	11.00%

5. Add together your **Marginal Tax Rate – Federal** from the federal tax table (determined in 3. above) and your **Marginal Tax Rate – State** (determined in 4. above), giving you your **Marginal Tax Rate - Total**.
6. Multiply your **Marginal Tax Rate – Total** by your **taxable graduate tuition remission** calculated in 1. above. This will give you a conservative estimate (i.e. a high estimate) of the **incremental taxes** that you will owe on your **taxable graduate tuition remission**.

Examples:

1. Employee Joan and her non-employee spouse, Harvey, use the filing status married filing jointly, and she estimates her 2012 salary will be $37,500, and Harvey's salary will be $42,000. She further estimates that Harvey will receive $12,000 in employee graduate tuition remission in 2012. Here are her calculations to estimate the additional taxes on the taxable graduate tuition remission that Harvey expects to receive:
    a. **Taxable employee graduate tuition remission** equals **$12,000**.
    b. **Total estimated taxable compensation** equals $12,000 + $37,500 + $42,000, or **$91,500**.
    c. **Marginal Tax Rate – Federal** (remember that Joan and Harvey file under married filing jointly status) is **25%**.
    d. **Marginal Tax Rate – State** is **9%**.
    e. **Marginal Tax Rate – Total** equals 25% + 9%, or **34%.**
    f. **Incremental taxes** equal 34% x $12,000, or **$4,080**.
2. If Joan was filing under married filing separately status, with all other facts the same as in example 1, her incremental taxes would be calculated as follows (note that she would be taxed on the benefit received by Harvey even though she files under this status):
    a. **Taxable employee graduate tuition remission** equals **$12,000**.
    b. **Total estimated taxable compensation** equals $12,000 + $37,500, or **$49,500**.
    c. **Marginal Tax Rate – Federal** (remember that Joan's filing status is married filing separately) is **25%**.
    d. **Marginal Tax Rate – State** is **9%**.
    e. **Marginal Tax Rate – Total** equals 25% + 9%, or **34%.**
    f. **Incremental taxes** equal 34% x $12,000 or **$4,080**.
3. If Joan's filing status was married filing jointly, and her spouse's estimated 2012 salary will be $96,000, with all other facts the same as in example 1, their incremental taxes would be calculated as follows:
    a. **Taxable employee graduate tuition remission** equals **$12,000**.
    b. **Total estimated taxable compensation** equals $12,000 + $37,500 + $96,000, or **$145,500.**
    c. **Marginal Tax Rate – Federal** (remember that Joan and Harvey use the filing status married filing jointly) is **28%**. Notice, however, that the **28%** marginal tax rate only applies to the portion of income that exceeds $137,301, which is equal to $145,500 - $137,301, or **$8,199**. The remainder of the $12,000, or **$3,801** is taxed at the marginal rate of **25%**.

d. **Marginal Tax Rate – State** is **9%**.
e. **Marginal Tax Rate – Total** has two components due to the two different federal marginal tax rates. Those components include the $8,199 which is at the 28% marginal rate, and the $3,801 which is at the 25% marginal rate. The marginal tax rate on the $8,199 is 28% + 9%, or **37%**, and the marginal tax rate on the $3,801 is 25% + 9%, or **34%**.
f. **Incremental taxes** equal ($8,199 x 37%) + ($3,801 x 34%), or **$4,326.**

Must taxes be withheld on my taxable employee graduate tuition remission and on my non-employee spouse's graduate tuition remission?

The University must withhold taxes from your paycheck on these additional income amounts (i.e. the value of the tuition remission) even though you are not receiving the income in cash. Thus, beginning in 2012, the university will start withholding taxes over the remainder of the calendar year starting at the time, in the case of employee graduate tuition remission, you cross over the $5,250 tax exempt threshold. In the case where your spouse is receiving the graduate tuition remission, withholding will begin immediately, as all non-employee spouse graduate tuition remission is taxable. Note that in the case of the employee, as well as in the case of the non-employee spouse, the evaluation of, and the act of, beginning to withhold taxes will be made after the respective add/drop dates each semester. At that point, if you or your non-employee spouse remains enrolled in a graduate course for which you are receiving a tuition remission benefit, you will be considered to be receiving the entire benefit, and will be taxed on the entire value of the benefit, even if you or your spouse subsequently drop, or otherwise do not complete the class.

How might I smooth out the impact of the tax withholdings on my employee graduate tuition remission and/or on my non-employee spouse's graduate tuition remission?

You may perform an estimate like those outlined in the examples above and request additional withholding on your Form W-4, available through the Payroll Office on the first floor of Waldschmidt Hall. By dividing the estimate of your incremental taxes for the year by the number of paychecks you expect to receive in the year, you could come up with an estimated incremental tax liability on a per paycheck basis. Note that as the taxable amounts of tuition remission increase over the course of the year, additional amounts will automatically be withheld by the payroll department. When that happens, you may wish to increase the number of exemptions you claim by filing an updated Form W-4 with the Payroll Office, which will result in lesser amounts being withheld from your check, and thus smoothing the impact of the taxes on your take home pay. It takes the payroll office about four days of lead time to process a changed Form W-4, so please try to plan ahead if you are going to make changes in your filings.

Is there any way that I may reduce the amount of taxes withheld from my paycheck?

The only way to lessen the amount of taxes withheld from your paycheck is to increase the exemptions that you claim. Note that if you have significantly under withheld on your taxes, you may be assessed a penalty and interest by the IRS. This is an area where it is best to check with an outside tax expert if you feel that you may be in danger here.

Is there a way I might fine tune these estimated tax impacts even more?

Yes there is! Since everyone has different tax situations, the above examples are necessarily general in nature. If you take your specific tax situation, and apply the above examples toward rigorous estimations of your Adjusted Gross Income (AGI) rather than your gross income, and carefully estimate your deductions, credits, other income items, and the like, you could come up with a more accurate estimate that applies to your specific circumstances. In any case, consultation with your own tax professional, if necessary, could help shed light on any elements of the above which are unclear to you.

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