

## TUITION REDUCTION TAXABILITY GUIDELINES

This chart provides a general overview of the taxability of various types of tuition reduction. It does not constitute tax advice. Each employee or recipient of tuition remission is strongly encouraged to discuss all questions related to tax liability with her or his tax advisor. See also [www.irs.gov/index.html](http://www.irs.gov/index.html)

WHO IS THE STUDENT	UNDERGRAD OR GRADUATE	TAXABLE OR NOT TAXABLE FOR FEDERAL INCOME TAX	NOTES
1)-Faculty/Staff	Undergraduate	Not Taxable IRS Sec 117(d)	Federal law determines the federal tax treatment of tuition benefits for employees.
	----- Graduate	----- Annually, the first \$5,250 is Not-Taxable. <b>Any amount over \$5,250 is TAXABLE</b> IRS Sec 127	
2)-Spouse (legally recognized by federal tax law) or widow/er (provided Employee died while employed as a full-time faculty member)	Undergraduate	Not Taxable-IRS Sec 117(d)	Federal law determines the federal tax treatment of tuition benefits for spouses.
	----- Graduate	----- 100% Taxable	
3)-Other Qualified Adult (OQA) –  Not legally recognized by federal tax law.	Either	100% Taxable	The extension of tuition reduction benefits to an OQA requires the inclusion of the value of such payments in the gross income of the employee.
4)-FEDERAL TAX DEPENDENT WHO IS EMPLOYEE’S: -Biological Daughter/Son -Stepdaughter/Stepson -Legally adopted Daughter/Son  <i>A <b>child</b> who does not qualify as a dependent under the “Qualifying Child” rules may qualify as a dependent as a “Qualifying Relative”<sup>2</sup></i>	Undergraduate <b>Full-Time<sup>1</sup></b>	Not Taxable IRS Sec 117 (d)	Employee must claim the student as a dependent on the employee’s federal tax return for the year in which the tuition reduction is granted.
	----- Graduate	----- 100% Taxable	-----
	Undergraduate <b>Part-Time</b>	Not Taxable-IRS Sec 117(d)	Part-time must qualify as a dependent under “Qualifying Relative” rules.
5)-EMPLOYEE’S: -Biological Daughter/Son -Stepdaughter/Stepson -Legally adopted Daughter/Son  <i>If Employee is divorced or separated from child’s other parent who claims child as a tax dependent.</i>	Undergraduate <b>Full-Time<sup>1</sup></b>	Not Taxable IRS Sec 117 (d)	Divorced/separated spouse must claim the student as a dependent on his/her tax return for the year in which tuition reduction is granted to the employee.
	----- Graduate	----- 100% Taxable	-----
	Undergraduate <b>Part-Time</b>	Not Taxable-IRS Sec 117(d)	Part-time must qualify as a dependent under “Qualifying Relative” rules.
6)- Dependent of OQA  <i>Must meet the IRS definition of a dependent.<sup>1</sup> Alternatively, a <b>child</b> who does not qualify as a dependent under the “Qualifying Child” rules may qualify as a dependent as a “Qualifying Relative”<sup>2</sup></i>	Either	100% Taxable	The extension of tuition reduction benefits to the dependent of an OQA, requires the inclusion of the value of such payments in the gross income of the employee.
7)-Special Lecturer	Undergraduate	Not Taxable-IRS Sec 117(d)	Eligible for up to 8 credits per appointment year. Credits are transferrable to spouse & dependents. Maximum of 8 total credits allowed. Transferring Graduate credits become 100% taxable.
	----- Graduate	----- Annually, the first \$5,250 is Not-Taxable. <b>Any amount over \$5,250 is TAXABLE</b> IRS Sec 127	

<sup>1</sup> IRS regulations define a qualifying child as an individual who is under the age of 24 and a full-time student for at least five months of the year. A qualifying child who is a full-time student at another college or university is eligible for tuition reduction as a guest student at Oakland University.

<sup>2</sup> IRS regulations define a qualifying relative as someone who meets the relationship test, whose gross income is less than the “Standard Personal Tax Exemption”, and meets the 50% support test.