TAXATION OF THE BYU TUITION BENEFIT
(For Spouses in Graduate Degree-Seeking Programs)

Rules on Taxation
Under provisions in Section 117 of the Internal Revenue Code (IRC), BYU employees, their eligible spouses and dependents can use the BYU Tuition Benefits for undergraduate BYU classes without having to pay taxes on the value of the tuition. In most cases, under the terms of IRC Section 132, employees can also take graduate classes at BYU without having the benefit taxed to the extent the classes relate to their current job. The tuition benefit for spouses in Graduate Degree-Seeking Programs is a taxable benefit and BYU is required by the IRS to withhold appropriate taxes. Even though the taxable benefit is for the spouse’s tuition, the related withholding taxes are withheld from the employee’s salary because the benefit is available through the employee’s benefits plan.

The Taxation Process
Before the tuition benefit can be paid for each semester that an eligible employee’s spouse takes graduate classes, the employee is required to complete a Tuition Taxation Form and return it to Benefits Services in D-240 ASB. The form outlines the options offered under the IRC. The taxed amounts may be spread over the payrolls within a particular semester. The employee must designate the payroll dates and amounts. Any questions may be directed to Benefits Services at 422-4496. The Tuition Taxation Form offers four options regarding the taxation process.

Option 1: Teacher or Researcher for the University
An employee should select this option if the spouse is employed part-time by BYU as either a Teacher or Research Assistant during each applicable semester. This is the only circumstance when the tuition benefit is non-taxable. Verification will be required through the Human Resource Payroll system.

Option 2: Anticipated Application of a Tax-Return Benefit
An employee should select this option if one of the following determining factors is met with each applicable semester. There are two instances where the Federal and State income taxes for a spouse’s graduate tuition are not withheld. However the benefit must be included on the employee’s W-2 as taxable wages and FICA taxes must be paid by the employee. Please consult your tax advisor to determine whether you are eligible. The two instances are as follows:

1. Above-the-Line Tax Deduction for Higher Education Expenses
   Section 222 of the IRC permits an annual deduction of $4,000 that can be applied to the spouse graduate tuition benefit. If this option is chosen for the tax year, the spouse’s graduate tuition benefit will be included in the employee’s W-2 as taxable wages. The appropriate FICA taxes will be withheld from the employee’s payroll checks. At the end of the year, the employee will claim the $4,000 deduction when filing the income tax return. This deduction is currently only available on tax forms through 2007. There are income limitations for this benefit. Please consult a tax advisor.

2. Life-time Learning Credit
   The Life-time Learning Credit is a Federal tax credit that is allowed in certain instances. The family may receive a Federal tax credit amount equal to 20 percent of the family’s first $10,000 of out-of-pocket qualified tuition and related expenses. If this option is chosen for the tax year, the spouse’s graduate tuition benefit will be included in the employee’s W-2 as taxable wages. The appropriate FICA tax will be withheld from the employee’s payroll checks. At the end of the year, the employee will claim the Federal tax credit when filing the income tax return. There are income limitations for this benefit. Please consult a tax advisor.

Option 3: Withholding of the Taxes
An employee should select this option if options 1, 2 and 4 do not apply. Appropriate Federal, State and FICA taxes will be withheld from the employee’s future paychecks as indicated. The benefit will be included in the W-2 taxable wages of the employee. Please consult a tax advisor.

Option 4: Retirees
Retirees who have no income through the BYU Payroll system will be issued a Form 1099 unless the Teaching or Research provision (Option 1) applies to their spouse. The value of the tuition will be added to the retiree’s form 1099 for the tax year. At the end of the year, the retiree may choose to use the Above-the-Line Tax Deduction or the Life-time Learning Credit when filing the income tax return to the extent they apply. There are income limitations for this benefit. Please consult a tax advisor.
TUITION TAXATION FORM
(For Spouses in Graduate Degree-Seeking Programs)
BYU Benefits Services • D240 ASB • ext. 2-4496 • fax 2-0306 • karmen_diaz@byu.edu

Semester or Term: _______________ Year: __________
Employee Name: ___________________ Employee BYU ID: ___________________
Campus Extension: ________________
Spouse Name: _____________________ Spouse BYU ID: ___________________
Number of Graduate Hours: _______ Tuition Cost $ ________________

_____ Option 1: Teacher or Researcher for the University
Do not withhold taxes because my spouse is employed by BYU as a Teacher and/or Researcher.

_____ Option 2: Anticipated Application of a Tax-Return Benefit
I will claim a deduction (Above-the-Line Tax Deduction) or a tax credit (Life-time Learning Credit) when I file my income tax return for the tax year. Withhold FICA taxes from the following payrolls:

<table>
<thead>
<tr>
<th>Pay Period End Date</th>
<th>Amount of Tuition Taxed</th>
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In choosing this option, I hereby certify that I have consulted a tax advisor or I have an adequate and knowledgeable basis to know that I am entitled to take a deduction or a tax credit for the full amount of the benefit on my tax return.

_____ Option 3: Withholding of the Taxes
Withhold Federal, State and FICA taxes from the following payrolls:

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<thead>
<tr>
<th>Pay Period End Date</th>
<th>Amount of Tuition Taxed</th>
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_____ Option 4: Retirees Only
I understand that I will receive a Form 1099 at the end of the year for the value of the tuition benefit.

_________________________________________ Date
Employee Signature

_________________________________________ Date
Benefits Signature

HRS 05/2017