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To: Recipients of Taxable Educational Assistance Benefits

From: Robin R. Rabii

This is to notify you that the educational assistance benefits you received in 1999 have been submitted to the Office of the State Comptroller so that the State can withhold taxes on those benefits.

Tax Rules

The tax rules governing employer-provided educational assistance benefits are the same in 1999 as they were last year. In general, job-related educational assistance benefits are not taxable; non-job-related benefits are taxable, with the following clarifications and exceptions:

- ▶ No tax withholding is required on educational assistance benefits provided to State employees for undergraduate courses, up to a \$5,250 limit during the tax year.
- ▶ Undergraduate benefits that exceed the \$5,250 threshold are generally taxable, unless they can be excluded as a "working condition fringe benefit."
- ▶ In general, educational assistance benefits provided for graduate courses are taxable, unless they can be excluded as a "working condition fringe benefit."
- ▶ To meet the "working condition fringe benefit" exclusion, the benefit must meet the following tests. Specifically, the course:
 1. must not be for the purpose of satisfying the minimum educational requirements of the job;
AND
 2. must not qualify the employee for a new trade or business;
AND, EITHER
 3. must maintain or improve current job skills;
OR
 4. be required by the employer or by Federal or State law in order to retain the particular job, title or pay rate.

Paycheck Information

The taxable amount of the educational assistance benefits you received will be displayed on your pay stub along with the description "Ed Asst-Tx" in the "Earnings" portion of the stub. This taxable amount will increase your Federal, State and local income tax withholdings as well as your Social Security and Medicare withholdings in the period or periods in which it is processed through the payroll system. The amount of the increase will vary based upon your salary, your exemptions, your tax bracket and the value of the benefit you received.

Processing Schedule

Agencies have been asked to submit transactions into the payroll system as soon as practicable and to ensure that the information is entered no later than pay period 17-lag/18-current, which would result in tax withholding in payroll checks up to and including those dated December 8 for those on the administrative pay cycle and December 2 for those on the institution pay cycle. The three check dates when withholding will occur are November 4, November 18 and December 2 on the Institutional pay cycle, and December 8 on the Administrative pay cycle. Agencies have been asked to divide the value of an employee's educational assistance benefits into three equal parts and submit three separate transactions to the payroll system if the value of the benefit equals or exceeds \$300. These procedures will reduce the impact of the tax withholding on employee paychecks by spreading the tax impact over multiple payroll periods.

These same dates and procedures will be used to process tax payments on tuition assistance provided through LEAP, PSTP and the M/C tuition reimbursement program.

Questions

You should consult with your tax advisor if you have any questions regarding the taxability of your educational assistance benefits. Other questions related to the processing of tax withholding on your benefits should be directed to your agency payroll or other appropriate administrative office.

Attachment
Examples Taken from IRS Publication 508:
Qualifying and Non-Qualifying Educational Expenses

Qualifying Education

Educational expenses are deductible (non-taxable) only if they are for qualifying education. This is education that meets at least one of the following two tests.

1. The education is required by your employer or the law to keep your present salary, status, or job.
2. The education maintains or improves skills needed in your present work.

Example: You are a teacher who has satisfied the minimum requirements for teaching. Your employer requires you to take an additional college course each year to keep your teaching job. You take a course and pay for it yourself. This is qualifying education even if you eventually receive a master's degree and an increase in salary because of this extra education.

Example: You repair televisions, radios, and stereo systems for XYZ Store. To keep up with the latest changes, you take special courses in radio and stereo service. These courses maintain and improve skills required in your work.

Example: You quit your biology research job to become a full-time biology graduate student for one year. If you return to work in biology research after completing the courses, the education is related to your present work. You may even choose to take a similar job with another employer.

Non-Qualifying Education

Even if the education meets one of the two tests above, it does not qualify for the exclusion if it:

1. Is needed to meet the minimum educational requirements of your present trade or business, or
2. Is part of a program of study that can qualify you for a new trade or business.

Example: You are a full-time engineering student. You work part time as an engineer for a firm that will employ you after you finish college as a full-time engineer. Although your college engineering courses improve your skills in your present job, you have not met the minimum job requirements for a full-time engineer. The education is non-qualifying education.

Example: You are an accountant. Your employer requires you to get a law degree at your own expense. You register at a law school for the regular curriculum that leads to a law degree. Even if you do not intend to become a lawyer, the education is non-qualifying because the law degree will qualify you for a new trade or business.