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H. CARL McCALL
STATE COMPTROLLER

To: Recipients of Taxable Educational Assistance Benefits

From: Robin R. Rabii

Date: November 2, 2000

This is to notify you that the educational assistance benefits you received in 2000 have been submitted to the Office of the State Comptroller so that the State can withhold taxes on those benefits.

Tax Exclusion and Refund Pilot Program

Last year, pursuant to an agreement reached with the Governor's Office of Employee Relations (GOER) and the employee unions (CSEA and PEF), we were able to provide tax refunds to employees who certified that the educational assistance benefits they received in 1999 satisfied the IRS criteria for the "working condition fringe benefit exclusion."

We have been advised by GOER that they are not in a position to continue the refund pilot program in 2000. Accordingly, we are unable to offer tax refunds to those whose graduate courses meet the IRS criteria for the tax exclusion. Employees are strongly encouraged to seek out the advice of a tax or other knowledgeable professional to determine the taxability of this benefit.

Tax Rules

The tax rules governing employer-provided educational assistance benefits are the same in 2000 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
 1. must not qualify the employee for a new trade or business;
AND, EITHER
 2. must maintain or improve current job skills;
OR
 3. 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 “Education Assistance-Taxable” 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 18-lag/19-current, which would result in tax withholding in payroll checks up to and including those dated December 20 for those on the Administrative pay cycle and December 28 for those on the Institution pay cycle. The three check dates when withholding will occur are November 22, December 6 and December 20 on the Administrative pay cycle and November 30, December 14 and December 28 on the Institutional 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.