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To: Recipients of Taxable Educational Assistance Benefits

From: Robin R. Rabii

RE: **Educational Assistance Benefits**

Date: November 19, 2001

This is to notify you that the educational assistance benefits you received in 2001 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 2001 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 promotion or transfer to a new trade or business;

AND

3. must maintain or improve current job skills 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**

If the value of the educational assistance benefit equals or exceeds \$300, OSC will divide the value of the benefit by three and report one third of the amount in each of the last payroll periods of the calendar year. For example, if the benefit totals \$600, \$200 will be reported in pay period 16L/17C (checks dated November 21 for Administration and November 29 for Institution), another \$200 in pay period 17L/18C (checks dated December 5 for Administration and December 13 for Institution), and the final \$200 in pay period 18L/19C (checks dated December 19 for Administration and December 27 for Institution). This approach will reduce the impact of the tax withholding on employee paychecks by spreading the tax impact over multiple payroll periods.

### **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.