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To: Recipients of Taxable Educational Assistance Benefits

From: Robin R. Rabii

RE: **Educational Assistance Benefits**

Date: November 19, 2003

This is to notify you that the educational assistance benefits you received in 2003 have been submitted to the Office of the State Comptroller in order for the State to withhold applicable taxes on those benefits.

Tax Rules

The 2003 tax rules governing employer-provided educational assistance benefits are consistent with last year. In general, job-related educational assistance benefits are not taxable while 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 up to a \$5,250 limit during the tax year.
- < Benefits that exceed the \$5,250 threshold are generally 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 / advice statement 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.

Questions

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