



## Office of the State Comptroller

# PAYROLL BULLETIN

Subject		Bulletin No.
Federal Tax Law Changes Affecting Educational Assistance Payments		P-926/A-400
		Date December 13, 1996
INTRODUCTION	<p>This bulletin updates Bulletin A379/P870 and contains information on the changes to the Federal Tax Laws contained in the Small Business Job Protection Act of 1996 which affect employer-provided educational assistance payments. The 1996 Small Business Act has reinstated Internal Revenue Code Section 127 which provides for the exclusion from taxes of up to \$5,250 per year of non-job-related educational assistance for all payments made in 1995. In addition, both undergraduate courses either taken in 1996 or that begin next year before July 1, 1997 and certain graduate level courses begun before July 1, 1996 are also entitled to the exclusion of up to \$5,250 per employee each year.</p> <p>The Bureau of Payroll Audit will issue a bulletin that provides agencies with instructions and the information necessary to assist them in the preparation of 1995 W-2C's for affected employees. Payroll Audit will automatically refund any overpayments of Social Security and Medicare. The refund schedule will be included with that Bulletin.</p>	
GRADUATE LEVEL COURSES THAT ARE TAXABLE	<p>Any graduate level course that began after June 30, 1996 and is normally taken by an individual pursuing a program leading to a law, business, medical or other advanced academic or professional degree is not entitled to the non-job-related educational assistance exclusion. Such a graduate level course is subject to wage reporting and withholding. Payments for such courses made through the Central Accounting System (CAS) must be reported to the OSC Payroll System according to the procedures contained in the Payroll Bulletin mentioned above.</p> <p>NOTE: Please refer to Accounting Bulletin A353 for a discussion of job-related vs non-job-related courses.</p>	
UNDERGRADUATE EDUCATIONAL ASSISTANCE FOR 1997	<p>The educational assistance exclusion for undergraduate courses will remain in affect for courses beginning before July 1, 1997. There is no way to know at this time whether Congress will exclude educational assistance payments for undergraduate courses that begin after June 30, 1997 from wages and withholding. Therefore, agencies should be aware that withholding and reporting on such payments may have to be reimposed during the second half of 1997.</p>	

RECAP

<u>TYPE OF EDUC.</u> <u>ASSIST. PAYMENT</u>	<u>EXCLUDABLE</u>	<u>EXCLUDABLE</u> <u>UP TO \$5,250/YR</u>	<u>REPORTABLE</u> <u>AND SUBJECT TO</u> <u>WITHHOLDING</u>
<b>Job -Related Payments</b>	X		
<b>Non-Job-Related Payments</b>			
Made in 1995		X	
For undergraduate courses taken in 1996, or that begin before July 1, 1997		X	
For graduate courses that began before July 1, 1996		X	
For graduate courses that began after June 30, 1996, which normally lead to a professional degree			X
Payments for undergraduate courses beginning after June 30, 1997		To be determined	