



CHAPMAN
UNIVERSITY

Human Resources Department

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Date: January 11, 2002

To: All Benefits Eligible Faculty, Staff, and Administrators

From: Brenda Dunbar, Compensation & Benefits Manager

Re: Chapman University Tuition Discount Program
Changes in IRS Tax Regulations effective January 1, 2002

I am pleased to announce that there has been a favorable change to the IRS tax regulations for graduate tuition discounts effective January 1, 2002. Under Section 127 of the Internal Revenue Code, employees with approved tuition discounts for graduate courses may now exclude from gross income the first \$5,250 of educational assistance received in the calendar year. In the past, the value of your graduate courses was added to your gross income and you were taxed on the adjusted gross.

Starting with courses that begin on or after January 1, 2002, you will no longer be taxed on the first \$5,250 of graduate courses taken each calendar year. The only exception to this is that any graduate course involving sports, games, or hobbies WILL be taxed unless it is required as part of a degree program.

Once you exceed \$5,250 in graduate courses for the year, the taxability will be assessed under the same provisions as last year (Sections 132 and 162) and as outlined in IRS Publication 508.

Graduate courses taken by dependent spouses and children will continue to be taxed.

Undergraduate courses taken by the employee and/or dependent spouses or children are considered a qualified tuition reduction under Section 117 and continue to be tax-free.

The process for the approval of Tuition Discount will not change. Please continue to submit the "Application for Tuition Discount" along with the "Employee Graduate Program Questionnaire" and/or the "Certification of Dependent Eligibility" as appropriate to Human Resources prior to the start of the semester/term that classes are being taken. There will be no need to resubmit any forms already submitted in order to take advantage of the change in taxation.

If you have any questions, please call me at 714-997-6686 or email me at bldunbar@chapman.edu.