

INVESTMENT & TAX SERVICES

January 14, 2005

Graduate Students Employed as GRA or GTA and Fellowship/Scholarship Recipients Receiving Health Insurance Benefits**Issues**

- Are employer paid health insurance premiums taxable to graduate students and Fellowship/Scholarship recipients?
- How are such benefits reported?
- What are the filing requirements involved (taxes, etc.)?

Facts

- UVA offers graduate students who annually earning \$5,000 or more, a health insurance subsidy equal to the single coverage rate (currently \$1,600 per year).
- UVA offers Fellowship/Scholarship recipients who receive at least \$5,000 annually in Fellowship/Scholarship support, a health insurance subsidy equal to the single coverage rate (currently \$1,600 per year).
- The University treats GTAs and GRAs as employees, their salaries are paid by University payroll and they receive a W-2 at year-end.
- The University processes the health insurance subsidy for GRAs, GTAs and fellowship/scholarship recipients through the ISIS system and the subsidy is not reported on a 1099 or W-2.

Analysis/Discussion:**Graduate research assistants and graduate teaching assistants:**

In order for graduate students employed as GRAs or GTAs with earnings of \$5,000 or more to receive a non taxable health care premium benefit:

- The graduate students must be eligible to receive health care benefits based on their employment status being classified as eligible for health care benefits.

AND

- A written plan document must be in place that describes the additional employer-provided benefits. The plan must include a description of the benefits, eligibility requirements, enrollment periods, monthly or annual rates and any additional information enabling the participant to make an educated decision on whether to participate in the plan.

The University classifies its GRA/GTAs as employees eligible for health benefits and the written plan is maintained by Student Health. Hence, the health insurance subsidy of up to \$1,600 per year would not be reportable as a taxable benefit on the GRA/GTAs W-2. The \$5,000 or more annual earning requirement is not considered discriminatory nor does it change the issue of excludable or non-excludable taxable income since the portion of the students represented is not considered part of the University's "highly compensated" population.

Fellowship/Scholarship Recipients:

Qualified scholarship payments include payments for tuition and required fees, books, supplies and equipment. Payments in excess of these amounts are taxable. Since the payment or subsidy of a portion of health insurance premiums is not a qualified scholarship payment, the payment or subsidy will be considered taxable income. The University is not required to report the taxable health insurance benefit on a W-2 or form 1099. It is the student's responsibility to report the benefit on their individual tax return and pay any applicable taxes.

Law and Authority

Section 106(a) of the Internal Revenue Code provides that gross income of an employee generally does not include employer-provided coverage under an accident or health plan.

Treasury Regulation 1.106-1 states that the gross income of an employee does not include contributions which his employer makes to an accident or health plan for compensation (through insurance or otherwise) to the employee for personal injuries or sickness incurred by him, his spouse or his dependents.

Revenue Ruling 61-1146, 1961-2 C.B. 25 concludes that, if payments are shown to be in reimbursement of premiums actually paid by the employees to the insurers, reimbursements paid to employees by their employer for the employees' medical insurance premiums constitute employer payments of accident or health insurance premiums. Accordingly, such amounts paid are excludable from the gross income of the employees under Code section 106.

Private Letter Ruling 199902016 (January 15, 1999) concludes that reimbursements of health insurance premiums, paid by an exempt organization under a written plan, will be excludable from the gross income of the organization's employee under Code section 106 where written substantiation of the expense is provided.

Section 105(h)(5) of the Internal Revenue Code defines *highly compensated individuals* as 'one of the 5 highest paid officers, a shareholder who owns more than ten percent in value of the stock of the employer, or a person who is among the highest paid 25 percent of all employees'.

Section 117(b) of the Internal Revenue Code defines a *qualified scholarship* as 'the amount received by an individual as a scholarship or fellowship grant to the extent the individual establishes that, in accordance with the conditions of the grant, such amounts were used for qualified tuition and related expenses'.

Conclusion:

The health insurance subsidy is appropriately excluded from the gross income of our GRAs and GTAs. In addition, the subsidy is not reportable to the IRS.

With respect to scholarship/fellowship recipients, the University is not required to report the taxable health insurance subsidy to the IRS. It is the student's responsibility to report the benefit on their individual tax return and pay any applicable taxes.

