

## **Educational Assistance (Tuition Reimbursement)**

Source References: IRS Publication 15-B (2013); IRS Publication 970 (2012)

Educational Assistance includes amounts paid to employees or incurred on employees' behalf for education expenses. Education expenses include tuition, books, equipment, fees, and supplies associated with a qualifying course. Education expenses do not include cost of lodging, meals, transportation or the cost of tools or supplies that an employee is allowed to keep after the completion of the course.

In order to provide educational assistance to employees as a non-taxable benefit, it is necessary to have an educational assistance program in place. An educational assistance program is a separate written plan that provides educational assistance to your employees. Qualifying educational assistance programs must meet the following tests:

- Program benefits must not favor highly compensated employees
- The program must not provide more than 5% of annual benefits to shareholders or owners
- The program does not allow employees to choose to receive cash or other benefits that are includable in gross income instead of educational assistance
- You give reasonable notice of the program to eligible employees

Under a qualifying educational assistance program you can currently exclude up to \$5,250 of educational assistance that you provide to an employee from that employee's wages each year.

The educational assistance program plan document should be drafted by the district and/or by legal counsel. Along with defining the criteria and scope of an educational assistance program in the plan document, here is suggested wording that should be included:

### *Non-Discriminatory Clause*

*These benefits will be offered on a non-discriminatory basis that will not favor highly-compensated educators. This plan serves as notice of the availability and terms of this program to all eligible educators.*

### *Tax Implications for Employees*

*The IRS sets a maximum dollar amount of tuition reimbursement received from the District which can be excluded from an educator's income each tax year. The District will not include these benefits in the wages, tips, and other compensation box on the educator's Form W-2. This also means the educator does not have to include these benefits on the annual tax return. No tax-free education expenses paid for by the District can be used as a basis for any other deduction or credit, including the lifetime learning credit and the American opportunity credit.*

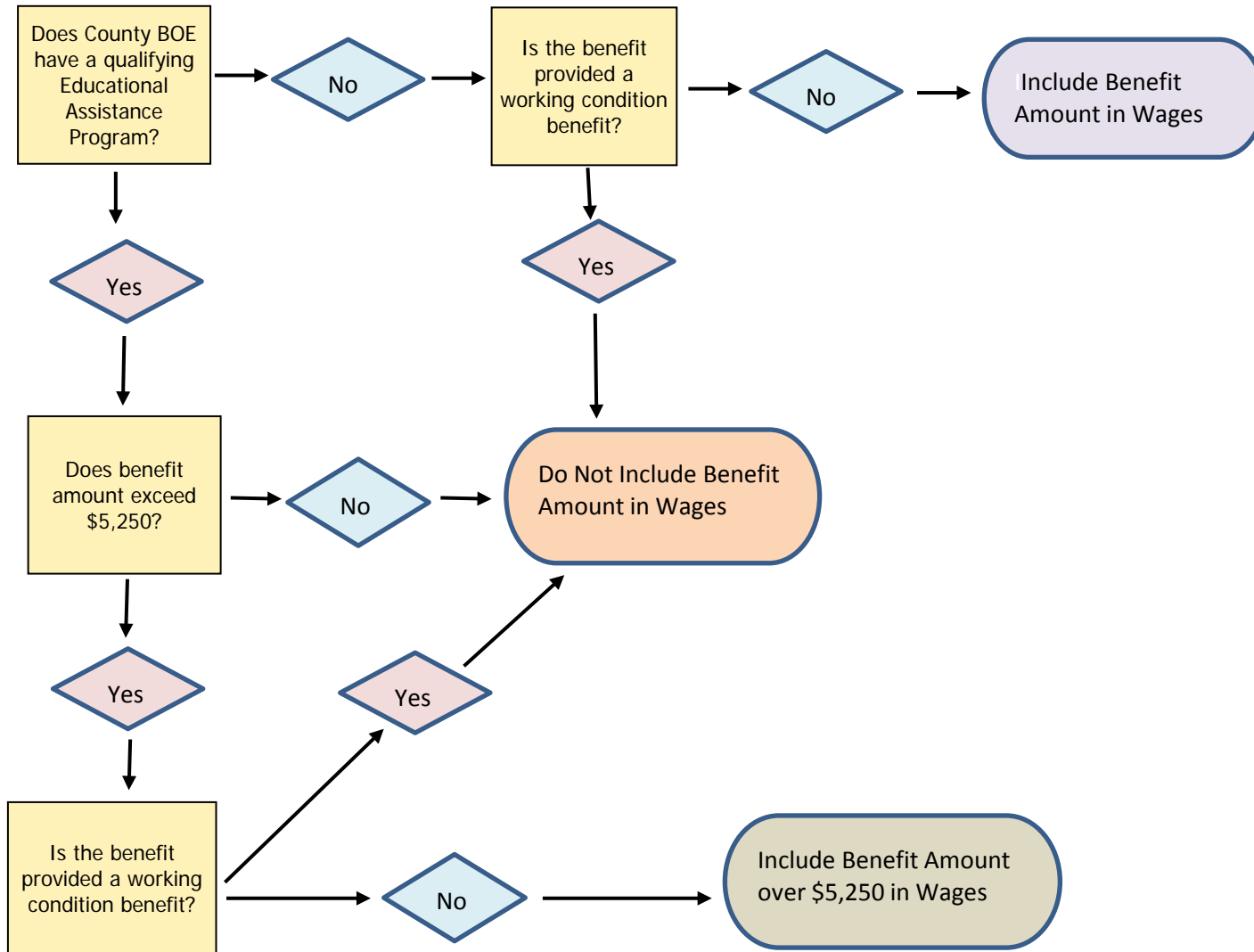
*Amounts paid in excess of the maximum dollar amount set by the IRS are generally taxable. However, if the excess of benefits paid qualifies as a working condition fringe benefit, the District does not have to include them in the educator's wages. A working condition fringe benefit is a benefit which, had the educator paid for it, the educator could deduct as a business expense.*

If you do not have an educational assistance program or if you provide more than \$5,250 of educational assistance to an employee, the value of those benefits must be included as wages unless they are working condition benefits. Property or service provided is considered a working condition benefit to the extent that the employee could have deducted the amount as a business expense had he/she paid for it him/herself. Education working condition benefits must meet at least one of the following tests:

- Education required by the employer or by law for the employee to keep his or her salary, status or job. The required education must serve a bona fide business purpose of the employer.
- The education maintains or improves skills needed in the job
- However, even if the education benefits meet one of the above tests it is not a qualifying working condition benefit education if:
  - It is needed to meet the minimum educational requirements of the employee's present trade or business or
  - It is part of a program of study that will qualify the employee for a new trade or business

LEA's should use object code 241 (Tuition Reimbursement) for educational assistance payments to employees. If, for reconciliation purposes, it is more convenient for LEA's to code the taxable and non-taxable portions of the educational assistance reimbursement to different object codes, it is permissible to use object code 119 (Other Compensation) for the taxable portion only.

## Educational Assistance Decision Tree



\* The \$5,250 limit is subject to change. LEA's should review IRS Publication 15-B annually to verify the amount.