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Set up a program that effectively pays for all or most of the costs on a tax-free basis.

Ken Berry • Aug. 16, 2016



If some of your employees are looking to go back to school, or to enroll in college courses for the first time, you might decide to lend a helping hand. An employer can set up a program that effectively pays for all or most of the costs on a tax-free basis. Usually, this is achieved through an educational assistance plan or a working condition fringe benefit.

1. Educational assistance plans: This is a formal plan supporting advanced education and training employees for new or improved skills. It can be established to

provide benefits for graduate studies as well as an undergraduate degree. Generally,

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concerning HCEs applies to most other statutory fringe benefit plans.

- The plan doesn't provide more than 5 percent of its benefits during the year to shareholders or owners. For this purpose, a shareholder or owner is someone who owns more than 5 percent of the business.
- The plan doesn't allow employees to choose to receive cash or other benefits that must be included in taxable income.
- The employer provides reasonable notice of the program to eligible employees.

Note that IRS no longer requires employers to file Form 5500 for educational assistance plans.

2. Working condition fringe benefit: Under the rules for working condition fringe benefits, an employer may provide educational assistance tax-free to employees. Unlike educational assistance plans, there is no dollar limit on the annual benefits.

To qualify for the tax exclusion, the expense must pass either of the following two tests.

- The education is required by the employer or by law for the employee to keep his or her present salary, status or job. The required education must serve a legitimate business purpose of the employer.
- The education maintains or improves skills needed for the employee to do the job.

However, even if the education meets one or both of these tests, it doesn't qualify for the tax exemption if it is required to meet minimum educational requirements of the job or it's part of a program of study that will qualify the employee for a new trade or business.

Your payroll department must account for education expenses under the regular

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time that you do.

[Boxout: This is part of a special series, “[Sweet 16](#)” fringe benefits on the books for [2016](#), by our resident tax expert, Ken Berry, J.D. See the full series at www.CPAPracticeAdvisor.com/12226461.]

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