

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

PAYROLL

Education Fringe Benefits Get an A+

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 ...

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, the maximum exclusion of \$5,250 per year is available for tuition, books, equipment, fees and supplies for study that has a reasonable relationship to your business or is required as part of a degree program.

However, the plan can't cover the cost of a course or other education involving sports, games or hobbies or the cost of lodging, meals or transportation.

Furthermore, the following requirements must be met:

- The plan doesn't favor highly-compensated employees (HCEs). The requirement 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 rules for reimbursements. This may include amounts for transportation and lodging.

Finally, an educational institution may establish a tuition reduction program for its employees. As long as certain requirements are met, the reduction in cost is tax-free to the employees. For graduate study, the student must perform teaching or research activities for the educational organization.

Not only do these higher education programs help build morale, they may result in increased productivity for the business. Help your employees get ahead at the same 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.]

Payroll • Article • Benefits • fringe benefits

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved