

Employer Provided Education Benefits (Tax Issues – as of Sept 2006)

Purpose

To provide a summary of the possible tax implications for employer-provided educational benefits. Whether or not University paid tuition, course fees and books are subject to income tax for the recipient employee depends upon which section of the Internal Revenue Code applies:

Section 117 – “Qualified Scholarships”

Educational expenses may be tax free, if it is not payment for past, present or future employment services. The employee must be a degree candidate, so it this option is not suitable for employees wishing to supplement their education with a few courses. The scholarship must be a true scholarship or grant and cannot be contingent upon continued employment. Otherwise it would be considered de facto compensation and subject to tax. Since the scholarship is not contingent upon the employment relationship, they may be provided to spouses, children, etc. tax free.

Section 127 – “Educational Assistance Programs”

Educational expenses may be tax free up to \$5,250 per year if the benefits are open to all employees and the program is formally documented as policy for employee benefit packages. This program is contingent upon the employment relationship, so it is not be open to spouses and children. The employee does not have to be in a degree program and the coursework does not have to correlate to his/her job. However, the employer may set certain eligibility requirements, so long as they are not discriminatory.

Section 132 – “Certain Fringe Benefits”

Educational expenses may be tax free, if they qualify as a “working condition fringe benefit”. To qualify, the education must be required in order to either maintain one’s current position or to improve the skills necessary to perform one’s duties. The expense must be eligible as a tax deductible business expense if the employee were to pay the expense themselves. Example: an auditor takes a course to prepare for the Certified Internal Auditors exam. He/she pays for the course and the cost is deductible on his/her personal tax return as a business expense. Therefore, per Section 132, if the employer paid for the same course on behalf of the employee, it would not be subject to tax.

References

American Institute of Certified Public Accountants
Edmund D. Fenton Jr., Certified Public Accountant
<http://www.aicpa.org/PUBS/JOFA/sep2004/fenton.htm>

Internal Revenue Code, Title 26, Section 117 “Qualified Scholarships”
<http://www.fourmilab.ch/ustax/www/t26-A-1-B-III-117.html>

Internal Revenue Code, Title 26, Section 127 “Educational Assistance Programs”
<http://www.fourmilab.ch/ustax/www/t26-A-1-B-III-127.html>

Internal Revenue Code, Title 26, Section 132 “Certain Fringe Benefits”
<http://www.fourmilab.ch/ustax/www/t26-A-1-B-III-132.html>