



Back to School (Part I): Tax Benefits of Offering Tuition Payment Assistance

Many employers offer assistance to employees to cover tuition and other educational expenses (costs of books, supplies, etc.) as a stand-out benefit in a competitive labor market. While this certainly provides incentives to prospective applicants and employees, it also may offer a tax-break to employers. To enjoy the tax advantages of covering employee education costs, an employer should follow all state and federal tax laws and regulations. Some of the core requirements for tax-advantaged treatment under the federal Internal Revenue Code Sec. 127 are:

- The employer must have a written plan.
- The plan cannot offer other benefits that can be selected instead of education.
- Only costs of tuition and course-related materials are covered; not costs of housing, extracurriculars, meals, or transportation.
 - *Through December 31, 2025, this may also include payment to an employee or a lender of principal or interest on a qualifying education loan.*
- There is a limit of \$5,250 for favorable tax treatment both for an employer to an employee in a year, and as to what an employee can receive from all employers in a calendar year.
- The plan must not discriminate in favor of highly compensated employees (generally those receiving \$130,000 or more as of 2020). Also, principal shareholders/owners (those who own 5% or more of the stock, capital, or profits of the employer) and their spouses or dependents can't garner more than 5% of the amounts paid.

Employers with plans that meet all requirements set by law may exclude qualifying payments (up to the \$5,250 annual limit) from an employee's gross income. If an employer exceeds the \$5,250 limit, the amount in excess will be considered a fringe benefit and taxed accordingly. In uncommon cases, another tax code provision may apply (i.e., if an employee is taking a class for her job or as a work-related expense) that may still allow it to be tax-exempt.

In a time where education expenses are on the rise and the labor market remains tight, employers are either looking to create tuition assistance programs, or update existing ones. For more information or help reviewing your plan, you can visit <https://www.irs.gov/publications/p15b> or contact us at [Lehr, Middlebrooks, Vreeland & Thompson](#).