



Part II: Some Frequently Asked Questions, and Answers, about Employee Tuition Assistance Plans

The questions below are frequently asked by employers when designing or considering modifications to a Section 127 Tuition Assistance Program. Check out Part I – [Back to School: Tax Benefits of Offering Tuition Payment Assistance](#) – of this series to learn about this tax-advantaged employee benefit.

May an employer use a reimbursement-based plan or assume costs up front?

Either type of plan is permissible. Employers may opt to pay a qualifying employee or their educational institution directly upfront. They may also opt to only offer tuition reimbursement to eligible employees. Reimbursement, as opposed to direct payment, tends to allow employers more flexibility to draft policies and requirements they deem fit or appropriate for their workplace.

- *If you provide direct payments to your employee, make sure to have a policy in place certifying that the employee is using the money only for eligible expenses.*

Can an employer set a minimum grade for reimbursement?

Yes. Employers may require an employee to earn a specific grade (e.g., C) to receive reimbursement; or they may use a sliding scale (i.e., an employee may qualify for 100% reimbursement if they receive an A, 90% for a B, and so on).

- *Remember: Be non-discriminatory in all your practices and requirements and apply each uniformly.*

If an employer uses a reimbursement model, can the employer restrict eligibility to current employees as of the date of reimbursement?

Yes. Eligibility requirements may be created by the employer.

May an employer set an eligibility criterion based on tenure with the company?

Yes. An employer may set a certain length of time in which an employee must be with the company to be eligible for tuition assistance.

May an employer set a qualifying criterion of job-relatedness of education?

Yes. For tax purposes (as discussed in Part I), payments do not have to be for job-related courses. Employers may, on the other hand, create this qualification on their own.

Can this apply to a GED or high school equivalent?

No. To be eligible for possible tax benefits (see Part I), the payments may only be for either undergraduate or graduate level courses. Employers may create their own separate policies that cover GED or high school education.

What if an employee leaves the company?

This can be a little tricky, but usually will depend on your plan/program's terms and conditions and state law. For example, if an employer made an upfront direct payment, an employee may be required to pay back the money if they leave voluntarily or before the required length of time in the policy, if permitted by state law. This may not be the case if the employee was subject to a layoff or reduction in force.

Tuition assistance programs are a great incentive to gain new applicants and retain current employees, but an employer should be sure to abide by applicable laws and regulations to take advantage of the tax perks of offering such programs. It is important to consult an attorney or tax professional before creating a tuition assistance plan or modifying a current one. We at [Lehr, Middlebrooks, Vreeland, & Thompson, P.C.](#) are more than happy to assist with any questions.