



# DON'T TAX YOURSELF

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## Tuition Reimbursement as a Recruitment Tool

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In a tight labor market, many employers are looking for a way to stand out when recruiting talent.

Tuition reimbursement is one popular recruitment incentive that, in addition to improving the skills of valued employees, offers tax benefits to both the employer and employee.

### Tuition Reimbursement Plans

One popular benefit is tuition reimbursement in the form of a qualified education program. A qualified program can provide up to \$5,250 per calendar year in tuition reimbursements that are not taxable to the employee (and are deductible by the employer).

In order to be considered a qualified education program, a plan must: 1) be in for education assistance, 2) not discriminate in favor of highly paid employees (or owners which would not apply here), 3) not offer cash or other benefits in lieu of the educational benefit, and 4) give reasonable notice to employees of the program. Both undergraduate and graduate programs would qualify.

As long as the above requirements are met, an employer is free to set other criteria for participation, such as covering only postgraduate education or limiting reimbursements to a certain field of study.

### Working Condition Fringe

What if the employer wanted to offer education educational benefits that exceed \$5,250 per calendar year?

As a general rule, reimbursements in excess of \$5,250 would be taxable to the employee, included in the W-2 and subject to tax withholding similar to any other compensation.

Even though such a generous benefit would be welcome by many employees, the employee would still suffer an out-of-

pocket loss because of taxes owed on the excess.

Luckily, other sections of the tax law provide a way for tuition reimbursements to exceed \$5,250 and still be nontaxable to the employee.

If the coursework is considered a “working condition fringe benefit,” reimbursements would be considered tax free to the employee and still deductible by the employer.

A “working condition benefit” has to meet one of the following two tests:

1. The education is required by the employer or by law for the employee to keep his or her present salary status or job; or
2. The education maintains or improves skills needed for the job.

However, even if one or both of these tests are met, the education would *not* qualify if:

1. The education is needed to meet the minimum educational requirements of the employer’s trade or business; or
2. The program of study will qualify the employee for a new trade or business.

For example, an employee may be enrolled in part-time study of law, which leads to a J.D. degree. Courses such as Contracts or Uniform Commercial Code might improve or maintain skills needed for their current job, BUT the J.D. would qualify the employee for a new trade or business as a lawyer, so the reimbursements in excess of \$5,250 would NOT be excluded from income.

Coursework excluded as a “working condition benefit” would require the employer to make a course-by-course evaluation that the above requirements are met.

## Summary

Tuition reimbursements under both a qualified education plan and as working condition fringe benefits are two tools employers can use to recruit and retain talent.