

# What are the most tax-advantaged ways to reimburse employees' education expenses?



Reimbursing employees for education expenses can both strengthen the capabilities of your staff and help you retain them. In addition, you and your employees may be able to save valuable tax dollars. But you have to follow IRS rules. Here are a couple of options for maximizing tax savings.

## A fringe benefit

Qualifying reimbursements and direct payments of job-related education costs are excludable from employees' wages as working condition fringe benefits. This means employees don't have to pay tax on them. Plus, you can deduct these costs as employee education expenses (as opposed to wages), and you don't have to withhold income tax or withhold or pay payroll taxes on them.

To qualify as a working condition fringe benefit, the education expenses must be ones that employees would be allowed to deduct as a business expense if they'd paid them directly and weren't reimbursed. Basically, this means the education must relate to the employees' current occupations and not qualify them for new jobs. There's no ceiling on the amount employees can receive tax-free as a working condition fringe benefit.

## An educational assistance program

Another approach is to establish a formal educational assistance program. The program can cover both job-related and non-job-related education. Reimbursements can include costs such as:

- Undergraduate or graduate-level tuition,
- Fees,
- Books, and
- Equipment and supplies.

Reimbursement of materials employees can keep after the courses end (except for textbooks) aren't eligible.

You can annually exclude from the employee's income and deduct up to \$5,250 (or an unlimited amount if the education is job related) of eligible education reimbursements as an employee benefit expense. And you don't have to withhold income tax or withhold or pay payroll taxes on these reimbursements.

To pass muster with the IRS, such a program must avoid discrimination in favor of highly compensated employees, their spouses and their dependents, and it can't provide more than 5% of its total annual benefits to shareholders, owners and their dependents. In addition, you must provide reasonable notice about the program to all eligible employees that outlines the type and amount of assistance available.

### **Train and retain**

If your company has employees who want to take their professional skill sets to the next level, don't let them go to a competitor to get there. By reimbursing education costs as a fringe benefit or setting up an educational assistance program, you can keep your staff well trained and evolving toward the future and save taxes, too.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.

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