

## Benefit Fact Sheet

### What is it?

Internal Revenue Code (IRC) Section 127 provides an exclusion from an employee's gross income of up to \$5,250 per calendar year for amounts paid by an employer through a sponsored education assistance program. Qualified education expenses include: tuition, fees, books, and supplies for both undergraduate and graduate education.

IRC Section 127 does not require courses to be job related, however certain exceptions apply for courses related to sports, games, or hobbies, which are only covered if they are required as part of a degree program. The educational assistance program must not discriminate in favor of highly compensated employees.

### Why offer it?

- Display employer commitment to education and advanced training.
- Incent employees to increase industry related skills necessary for promotion.

### What types of employers offer it?

All types of employers offer educational assistance programs. According to a 2007 International Foundation of Employee Benefit Plans survey, 82% of public companies offer a formal educational assistance program, while 5% offer an informal program. Additionally, "74% do not require employees to pay back all or part of any money reimbursed for education if they leave employment."

### What size employers offer it?

All sizes of employers offer educational assistance programs.

### What are the critical underwriting or participation requirements?

- Employers should establish a written policy, which is displayed in an employee handbook or other onsite location (e.g. company intranet).
- If employees waive participation in an educational assistance plan, or opt to not participate, they may not receive compensation in place of the benefit.
- Expenses over \$5,250 are taxable to the employee and reported on the W-2 unless it can be deducted as a qualified business expense had the employee paid for the educational expenses. This is called the Working Condition Benefit under chapter 2 of the Publication 15-B, Employer's Tax Guide to Fringe Benefits. Unlike Section 127, Working Condition Fringe Benefits must be directly job related.

### What's new in this area?

- Expenses for graduate-level courses can qualify for the program.
- The Internal Revenue Service (IRS) no longer requires a Federal form 5500, Schedule F be filed for educational assistance programs.

### How much does it cost?

Set up costs are minimal aside from the actual educational program costs. The plan requires a separate written document outlining the plan, and must conform with the provision of IRC Sec 127(b)2 through 6. In addition, ongoing operational costs include internal administration of the program records, which track details such as accumulated reimbursements and totals per year.

## Benefit Fact Sheet

### Informational link(s)

- [Employer-Provided Educational Assistance](#) (IRS.gov)
- [IRC Sec 127](#) (Cornell Law)
- [Tax Guide to Fringe Benefits](#) (IRS.gov)
- [Readin', Writin', and ROI!](#) (CFO.com)

### Pros and cons

#### Pros

- Provides a tax-subsidized program for employees to enhance education and skills.
- Improves recruiting, retention, and morale.

#### Cons

- Adding a program will create an additional employer expense if an employer previously did not provide funds for educational assistance.
- Requires some administrative oversight and record-keeping.
- Involves additional employee communication.

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: [www.arlengroup.com/facts](http://www.arlengroup.com/facts).