

***IRS Section 127:
Employer-Provided
Educational Assistance***

SkillWorks Grantee Meeting

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Four IRS Tax Regulations for Employer-Provided Tuition Assistance

- **IRS code Section 127** – educational assistance provided by an employer to an employee for job-related or non-job-related courses (except those related to sports, games, or hobbies) up to \$5,250 may be excluded from the employees' gross income
- **IRS code Section 117-Qualified Scholarships** – educational assistance provided by qualified educational institutions to employees and their dependents (no limit) can be excluded from employees' gross income
- **IRS code Section 132-Certain Fringe Benefits** – employees can exclude employer-provided educational assistance (no limit) from their gross income if it qualifies as a working condition fringe benefit (a service an employer provides to an employee that, had the employee paid for the service, the employee could deduct the payment from his/her income as a business expense)
- **IRS code Section 62(a)(2)(A)-Reimbursed Expenses of Employees** – employees can exclude educational assistance (no limit) from their gross income if the assistance is provided as part of an employer's "accountable plan" (assistance must be business-related, expenses be documented, and employees required to return any excess payments)

Section 127

- Up to \$5,250/year in tax free reimbursement
- For undergraduate and graduate tuition, fees, expenses, books, supplies, and equipment
- Job- or non-job-related education
- Must be a “qualified educational assistance program”

Qualified Educational Assistance Plan

- The benefit must be offered on a non-discriminatory basis that does not favor highly compensated employees
- Reasonable notification of the availability and terms of the program must be provided to eligible employees
- There must be a separate written plan for the program
- The program may only be for the benefit of employees (including retired, disabled or laid off employees) and not for the benefit of the employee's spouse or children
- The plan cannot offer the employee a choice of taxable income or educational assistance

Section 127 History

- First enacted in 1978 with expiration date of Dec. 31, 1983
- 10 short-term extensions 1993-2001
- *Economic Growth and Tax Relief Reconciliation Act of 2001* extended until 2010

Section 127 Usage – Prevalence

- SHRM 2005 benefits survey – 67% of members offer undergraduate educational assistance
- CAEL 2004 survey – 35% of companies offer educational benefits
- IFEBP 2000 survey –
 - 89% members offered at least one educational benefit program
 - 26% offered Section 127 specifically
 - Most offered Section 132

Section 127 Usage – By Which Companies and for Whom?

- Large and larger medium-sized employers more likely to use
- Most recipients in the private, for-profit sector
- Employees with more education and higher incomes receive more benefits
- Employees with longer tenure receive more benefits
- Full-time employees more likely to get help
- Employers spend more to aid employees seeking BA/BS and advanced degrees than sub-baccalaureate

Why Companies May Not Offer Section 127 Benefits

- The program has never been a stable part of the tax code; companies have not established policies
- Companies do not know this benefit exists
- Companies do not have the HR capacity to develop the required policy for a tuition assistance program, to administer it, to track participating employees, or to track outcomes
- Companies do not know or understand the potential ROI that could result from higher usage of this benefit
- Employees do not know that it is a benefit and do not advocate for it

What Benefits can Companies Gain?

- More educated workforce
- Increased loyalty and retention
- Improved recruitment with a strong benefit package
- ROI

How Can a Company Get Started?

- Talk to tax advisor about specific tax code and procedures
- Create a “qualified educational assistance plan”
- Work with intermediary partner to measure ROI of Section 127 education assistance plan