



130.3 Education Assistance and Tuition Reduction

Educational Assistance (IRC 127) – Applies to employee only

Educational assistance given by employers to employees and states that employer-provided educational assistance under a qualified educational assistance program is not included in the employee's gross income. This is true regardless of whether the payment is made to the educational institution or as reimbursement to the employee. The amount of assistance that can be excluded is limited to \$5,250.

A qualified educational assistance program is a "separate written plan of an employer for the exclusive benefit of his employees to provide such employees with educational assistance." Therefore, the plan must be a written plan not part of another employee benefit plan for the exclusive benefit of employees and cannot be provided to employee's children or spouses. The plan cannot discriminate in favor of highly compensated employees. All employees must receive reasonable notice of this plan and the plan cannot offer employees a choice between the educational assistance and taxable compensation.

Educational assistance includes payments for, but not limited to, tuition, fees, books, supplies, and equipment. It does not include payment for tools or supplies the employee can retain after course completion, meals, lodging or transportation, or any course involving sports, games or hobbies.

Tuition Reduction (IRC 117(d)) – Applies to employee, spouse and dependents

If the University reduces its tuition charges for the benefit of an employee, or the employee's spouse or dependents, through a tuition reduction program, the tuition reductions will qualify as tax-free scholarships. The tuition reduction can only include amounts charged for tuition, fees, books, supplies, and required equipment. Amounts for room, board, or incidental expenses are included in the employee's gross income.

A qualified tuition reduction plan will only be nontaxable to the employee if the plan does not discriminate in favor of highly compensated employees. In addition, the exclusion **generally only applies to undergraduate education**. A tuition reduction for graduate-level work will qualify for the exclusion only if the individual receiving the reduction is a graduate student who is engaged solely in teaching or research activities.

However, in some cases, tuition waivers for graduate education may be considered non-taxable to employees as a working condition fringe. For example, a full-time employee in the University's Division of Student Life is accepted into the Higher Education Studies & Leadership (HESL) program and is awarded a tuition waiver. Since the employee is employed in a job that is related to the graduate education he or she is pursuing, the tuition waiver is excluded from taxable income as a working condition fringe because the education achieved benefits the university. See section 130.9 of this manual for additional information regarding working condition fringe benefits.