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IN REPLY REFER TO:
DBFBP 01-31

TO: Agencies Addressed

FROM: Diana Flagg, Chief
Bureau of State Payrolls

SUBJECT: Federal Taxation of Employer Provided Education
Assistance

The purpose of this memorandum is to provide agencies guidance on determining the taxability of employer provided education assistance and their responsibilities for reporting taxable education assistance.

BACKGROUND

Proviso language in the Appropriations Act for Fiscal Year 2000-2001 authorized full-time state employees to enroll at a state university for up to six credit hours of tuition-free courses per term, on a space available basis. The state tuition waiver program is discontinued for Fiscal Year 2001-2002 and replaced by a tuition voucher program administered by the Department of Management Services (DMS).

Section 110.1099, F.S. Education and Training Opportunities for State Employees, provides for a voucher program administered by DMS. The statute authorizes state agencies to supplement these funds to support the training and education needs of its employees from funds appropriated to the agency. DMS policy and procedures for the voucher program may be obtained at <http://fcf.state.fl.us/dms/hrm/index.html>.

GUIDELINES FOR DETERMINING TAX EXCLUSIONS

Employer paid education assistance may be excludable from the employee's income if the education is provided under a qualified education assistance plan or the education is job-related, as defined by the Internal Revenue Service (IRS). Agencies providing education assistance to employees must determine whether the education qualifies for exclusion from income tax.

Education not qualifying for income exclusion must be reported for federal reporting and taxation. The following provides information to assist you with making this determination.

Qualified Education Assistance Program

Internal Revenue Code (IRC) Section 127, Education Assistance Programs, provides exclusion from employee gross income up to \$5,250 per employee in education assistance during the calendar year. The excludable amount is not subject to income tax withholding or other employment taxes.

Education assistance under IRC Section 127 must be provided through an Education Assistance Program (EAP). A qualified Education Assistance Program includes the following elements:

- The program must be a separate written plan of the employer.
- The benefits under the plan must consist solely of educational assistance.
- The program must benefit only the employees of the employer.
- The program must benefit the employer's employees generally.
- Employees eligible to participate in the program are given reasonable notice of the terms and availability of the program.

Excludable Education Expenses - As used in IRC Section 127 and Treasury Regulations Section 1.127, the term "education" includes any form of instruction or training that improves or develops the capabilities of an individual. Education is not limited to courses that are job-related or part of a degree program. The income exclusion is currently limited to undergraduate courses and \$5,250 per year. **Effective January 1, 2002, the \$5,250 exclusion for undergraduate courses has been made permanent and expanded to apply to graduate courses.**

Non-Excludable Expenses - The term "education assistance" does not include the employer payment for, or provision of:

- Tools or supplies (other than textbooks) that the employee may retain after completing the course of instruction,
- Meals, lodging, or transportation, or
- Education involving sports, games, or hobbies, unless the education involves the business of the employer, or is required as a part of a degree program.

Education assistance above \$5,250 per year is treated as employee wages subject to federal income tax, Social Security, and Medicare tax unless excludable under IRC Section 132 as job-related education.

See IRC Section 127 or Treasury Regulations Section 1.127-2 for more information on employer provided educational assistance programs. Also, IRS Publication 508, Tax Benefits for Work-

Related Education, provides information on work-related education and employer provided education benefits. This publication may be obtained by contacting the IRS at www.irs.gov.

Job-Related Education (as defined by the IRS)

Educational expenses provided to employees are excludable from employee gross income when such payments qualify under the Internal Revenue Code as working condition fringe benefits. Education expenses will be considered working condition fringes when the education is job-related and the amount paid would have been deductible by the employee had the employee paid for it. Job-related educational assistance, even amounts in excess of \$5,250, may be treated as a nontaxable working condition fringe benefit.

Internal Revenue Service Publication 508, Tax Benefits for Work-Related Education, defines job related education as that which meets **at least one** of the following two tests.

1. The education is required by your employer or the law to keep your present salary, status, or job. The required education must serve a bona fide business purpose of your employer.
2. The education maintains or improves skills needed in your present work.

The following types of education do not qualify as job-related:

1. Education that satisfies the minimum educational requirements for the individual's employment.
2. Education that qualifies the individual for a new trade or business.

Education that prepares an individual for a change in duties is not the same as education that prepares an individual for a new trade or business. A change of duties does not constitute a new trade or business if the new duties involve the same general type of work as is involved in the individual's present employment.

The final arbiter as to the tax exclusion is the Internal Revenue Service.

For additional information concerning working condition fringe benefits and job-related education expenses, refer to IRC Section 132, Fringe Benefits, and Treasury Regulation Section 1.165-5, Expenses for Education. Also, IRS Publication 508, Tax Benefits for Work-Related Education, provides information on work-related education and employer provided education benefits. This publication may be obtained by contacting the IRS at www.irs.gov.

REPORTING TAXABLE EDUCATION ASSISTANCE

Agencies must determine whether the employer-paid education assistance is excludable from gross income under IRC Section 127, Qualified Education Assistance Plan, or IRC Section 132, Working Condition Education Fringe Benefit. Employees should be notified of tax liabilities during the eligibility for enrollment approval process and, where applicable, employees should be provided the opportunity to request a tax exemption for job-related education.

Taxable education assistance is subject to income and FICA (Social Security and Medicare) taxes. These taxable values will be included with the employee's earnings through the employee record adjustment process. This process collects the FICA taxes on the next regular payroll after the employee record update is entered, or from the agency FLAIR account, but does not collect income taxes. Agencies should notify employees receiving taxable tuition assistance of this additional tax liability, so that they may adjust their Form W-4, Employee's Withholding Allowance Certificate, as needed. The following paragraphs provide the reporting instructions.

Agency On-Line Reporting

Employing agencies and universities must report taxable values to the BOSP using the on-line employee record adjustment system for non-cash adjustments. This system is accessed through the Payroll Main Menu (PYRL), Cancellations and Adjustments (CA), Non-Cash Adjustments (NC). Utilizing the system requires two separate agency actions; after the record is added, it must then be approved.

Only taxable values are to be reported to the BOSP. Education determined to be excludable from gross income is not reportable to the BOSP. Documentation supporting the exclusion should be retained by the agency.

Taxable values must be reported in the current calendar year and cannot be carried over into the next calendar year. Employing agencies and universities are encouraged to report these values as soon as possible. Agencies may report the value of the taxable education assistance over more than one pay period to distribute the collection of Social Security and Medicare taxes. Agencies collecting FICA taxes through the payroll process in December should exercise care to ensure that the values are entered and approved prior to processing the last payroll of the year.

Reporting for Current Employees

The following data requirements apply to the collection of Social Security and Medicare taxes through the payroll process for currently employed employees:

Tax ID Number	:	_____	Social Security Number
Earning Code	:	_____	Use Code 9103 for Taxable Tuition
Earning Amount	:	_____	Use the Taxable Tuition Value
Benefit End Date	:	_____	For Spring Term use 0331YEAR For Summer Term use 0630YEAR For Fall Term use 0930YEAR
Retirement Code	:	_____	Use regular retirement code
Gross Up (Y/N)	:	_____	Use N (not subject to gross up)
Empee Pay Cycle	:	_____	B = Biweekly, or, M = Monthly
Organization Code	:	_____	First 4 digits, then zero fill
Agency OLO	:	_____	Agency 4 digit code. Example: UF = 4910; DOT = 5500
Last Name	:	_____	System generated
First Name	:	_____	System generated
Middle Initial	:	_____	System generated

Reporting for Employees No Longer on the Payroll

Prior to entering the taxable education assistance value into the On-line Cancellation and Adjustment System, agencies should verify that the employee is still employed by the agency. Agencies having taxable education assistance for employees no longer on the payroll must report those taxable values and pay the employer and employee FICA taxes. Employee taxes paid by the employer are considered additional income to the employee unless collected from the employee during the calendar year.

The following data requirements apply to the collection of Social Security and Medicare taxes from the agency FLAIR account for former employees:

Tax ID Number	:	_____	Social Security Number
Earning Code	:	_____	Use Code 9103 - Taxable Tuition
Earning Amount	:	_____	Use the Taxable Tuition Value
Benefit End Date	:	_____	Spring Term use 0331YEAR Summer Term use 0630YEAR Fall Term use 0930YEAR
Retirement Code	:	_____	Use regular retirement code
Gross Up (Y/N)	:	_____	Use Y (subject to gross up)
Empee Pay Cycle	:	_____	Leave Blank
Organization Code	:	_____	First 4 digits, then zero fill
Agency OLO	:	_____	Agency 4 digit code Example: UF = 4910; DOT = 5500
FLAIR Acct Code	:	_____	29 Digit FLAIR Account Code - collect FICA tax
Last Name:	:	_____	System generated
First Name	:	_____	System generated
Middle Initial	:	_____	System generated

For additional information about the use of these screens, refer to BOSP Payroll Preparation Manual, Volume V, Section 8, On-Line Non-Cash Adjustments. Volume VI, Section 3, Fringe Benefits, is being updated to include Employer Provided Education Assistance.

If you have any questions concerning these procedures or taxable education assistance, please contact Ernest Thompson at (850)410-9432, SUNCOM 210-9432, or e-mail: ethompso@mail.dbf.state.fl.us. Questions concerning data input and the use of the PYRL screens should be directed to Janet Joiner at (850) 410-9435, SUNCOM 210-9435, or e-mail: janet_e_joiner@mail.dbf.state.fl.us.

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