

# Benefits Insights

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## Educational Assistance Programs

An educational assistance program is an employer-sponsored program that reimburses employees for educational expenses. Employees can be reimbursed for almost any type of educational courses, with the exception of those concerning sports, games or hobbies. According to the Congressional Research Service, 40 percent of private sector employers offered work-related educational assistance as part of their fringe benefits package. In addition, 15 percent of employees are offered employer reimbursement for non-work related educational courses.

### Tax Advantages

Employer reimbursements for educational expenses are tax-exempt for employees, up to a maximum of \$5,250 annually. This amount can be applied to undergraduate or graduate level courses, and they need not be job-related. In addition, employers can claim a business deduction on their taxes for the amount of educational assistance they provide.

### What Qualifies as “Education”?

The term “education” is applied broadly regarding educational assistance programs. It includes any form of instruction or training that aims to improve or develop the capabilities of the employee. The training or instruction need not be work-related or part of a degree program. However, a course relating to a game, sport or hobby does not qualify, unless:

- The subject has a reasonable relationship to the business of the employer; or
- The subject is required as part of a degree program.

### Eligible Employees

Educational assistance programs provide benefits to eligible employees, which include employees who are active, retired, disabled, self-employed under certain circumstances, laid off or on a leave of absence. However, it doesn't include dependents of employees or independent contractors who are doing work for employees. Educational assistance programs can also provide benefits to terminated individuals, regardless of whether the termination was voluntary or involuntary.

### Eligible Educational Expenses

Only the following educational expenses qualify for employer reimbursement and tax exemption:

- Tuition
- Fees
- Books
- Supplies
- Equipment

The following expenses are not eligible for reimbursement under employer assistance programs:

- Tools or supplies (other than textbooks) that employees can keep after completing the course
- Meals
- Lodging



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#### **Establishing a Program**

For an educational reimbursement program to be recognized by the IRS and eligible for tax exemption, the employer must follow certain steps. The employer must create a written plan containing the details of the program, including defining the eligible expenses and eligible employees listed above. The plan may not offer employees a choice between educational assistance and some other type of payments. Also, a qualified educational assistance program may not discriminate in favor of highly compensated individuals, and the written plan must specify as such.