

# Providing education assistance to employees? Follow these rules

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Many businesses provide education fringe benefits so their employees can improve their skills and gain additional knowledge. An employee can receive, on a tax-free basis, up to \$5,250 each year from his or her employer for educational assistance under a “qualified educational assistance program.”

For this purpose, “education” means any form of instruction or training that improves or develops an individual’s capabilities. It doesn’t matter if it’s job-related or part of a degree program. This includes employer-provided education assistance for graduate-level courses, including those normally taken by an individual pursuing a program leading to a business, medical, law or other advanced academic or professional degree.

## Additional requirements

The educational assistance must be provided under a separate written plan that’s publicized to your employees, and must meet a number of conditions, including nondiscrimination requirements. In other words, it can’t discriminate in favor of highly compensated employees. In addition, not more than 5% of the amounts paid or incurred by the employer for educational assistance during the year may be provided for individuals who (including their spouses or dependents) who own 5% or more of the business.

No deduction or credit can be taken by the employee for any amount excluded from the employee’s income as an education assistance benefit.

## Job-related education

If you pay more than \$5,250 for educational benefits for an employee during the year, he or she must generally pay tax on the amount over \$5,250. Your business should include the amount in income in the employee’s wages. However, in addition to, or instead of applying, the \$5,250 exclusion, an employer can satisfy an employee’s educational expenses, on a nontaxable basis, if the educational assistance is *job-related*. To qualify as job-related, the educational assistance must:

- Maintain or improve skills required for the employee’s then-current job; or
- Comply with certain express employer-imposed conditions for continued employment.

“Job-related” employer educational assistance isn’t subject to a dollar limit. To be job-related, the education can’t qualify the employee to meet the minimum educational requirements for qualification in his or her employment or other trade or business.

Educational assistance meeting the above “job-related” rules is excludable from an employee’s income as a working condition fringe benefit.

### **Student loans**

In addition to education assistance, some employers offer student loan repayment assistance as a recruitment and retention tool. Recent COVID-19 relief laws may provide your employees with tax-free benefits. Please contact us to learn more about setting up an education assistance or student loan repayment plan at your business.

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