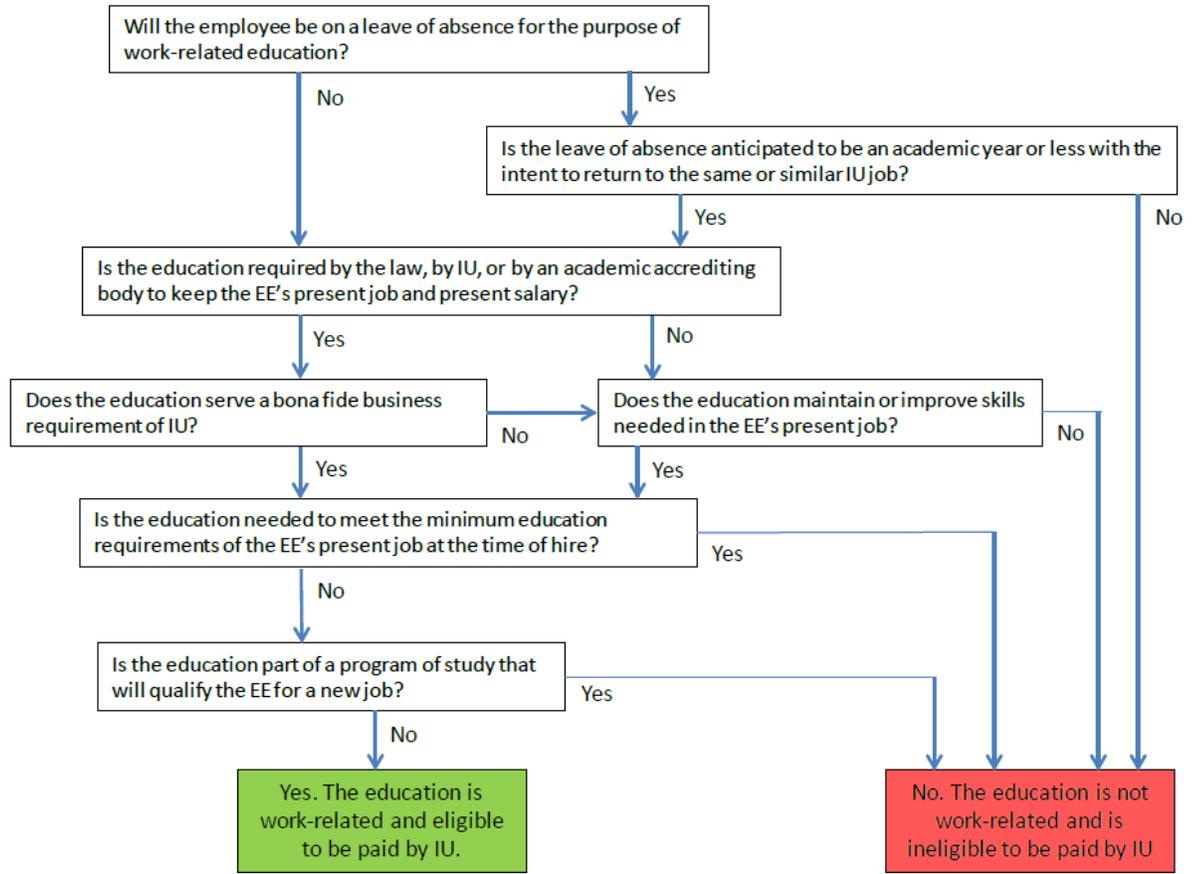


# UNIVERSITY TAX SERVICES

## STANDARD OPERATING PROCEDURE

<b>TSOP NO:</b>	3.06
<b>SUBJECT:</b>	<b>Employer Provided Education Tax Implications</b>
<b>SOURCE:</b>	University Tax Services, University Human Resources, University Bursar
<b>ORIGINAL DATE OF ISSUE:</b>	3/27/17
<b>DATE OF LAST REVISION:</b>	5/10/2017
<b>RATIONALE:</b>	<p>The purpose of this Tax Standard Operating Procedure is to provide units guidance on when certain payments, (cash or non-cash) made by IU, for educational purposes for an employee, could be considered taxable income to the employee. This pertains only to education benefits outside <a href="#">IU Tuition Benefit</a>. Per the IRS, under the Internal Revenue Code Section 132 (<a href="#">IRC §132</a>), certain educational benefits provided to employees are considered taxable and should be reported as non-cash fringe benefits to be included on the employee's Form W-2.</p> <p>If an IU employee receives educational benefits, as part of a valid IU business expense, under the IRS Accountable Plan rules – see <a href="#">IU Policy FIN-ACC-I-620 Reimbursement Under the Accountable Plan</a>, then no tax implications exist to the employee. Any educational benefit provided outside of the Accountable Plan Rules and IU Tuition Benefit will likely be taxable to the employee. Other scenarios should be described via email and sent to <a href="mailto:taxpayer@iu.edu">taxpayer@iu.edu</a> for review and discussion.</p>
<b>PROCEDURES:</b>	<p><b>STEP 1:</b></p> <p>Units should also review <a href="#">IU Policy HR-04-30: Employee Benefit Plans</a> to ensure no breach in policy will occur in funding educational expenses for an employee.</p> <p><b>STEP 2:</b></p> <p>Review <a href="#">flowchart</a> below for job-related purpose. This review should be done before contacting your Campus Budget/Finance Administrator to facilitate a discussion for business purpose.</p> <p><b>STEP 3:</b></p> <p>Contact the Campus Budget/Finance Administrator for your campus for approval. If the Campus Budget/Finance Administrator grants approval, contact <a href="mailto:taxpayer@iu.edu">taxpayer@iu.edu</a> for determination of tax implications (if any) to the employee.</p>

**FLOWCHART FOR JOB-RELATED DETERMINATION:**



**SCENARIO 1: IU CLASSES TAKEN BY IU EMPLOYEE**

This scenario pertains to an IU unit covering the additional cost of tuition after IU Tuition Benefit has already been applied or if the employee chooses to forgo utilizing the IU Tuition Benefit and the unit is covering the entire cost of tuition and fees through SIS. See Examples below.

Under this scenario, a determination should be made first to determine if the courses taken are considered job-related, and therefore, not taxable to the employee. If the courses are considered a business expense and IU has a true current business need for the employee to have the additional education, there are no taxable implications to the employee.

**EXAMPLES:**

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A bachelor's degree or equivalent is required for an administrative job in the College. The School hires a candidate who has three years of credit toward a degree with the understanding that he will complete his degree over the next year. The classes do not qualify as work-related education because they are required to meet the minimum requirements of the job. And, the minimum job requirements have not been changed by laws, regulations, or by professional or business standards.



UA has a talented business analyst who they would like to promote to a senior analyst position that requires a Master's degree. UA wants to pay the analyst's tuition for the degree. This does not qualify as work-related education because it is part of a program of study that would qualify the employee for a new job, not just enhance skills in the current position.



A research compliance job requires the incumbent to stay abreast of state and federal regulatory changes in the field. The department wants to pay the incumbent's tuition to take a SPEA course that provides an overview of policy changes. The education does qualify as work-related education because it maintains skills needed for the employee's current job.



An instructor teaching online classes has a Master's degree, but a PhD is required to become a faculty member. Instructors are required to make satisfactory progress toward becoming a faculty member in order to continue teaching. The cost of taking courses toward a PhD is not work-related education because the instructor hasn't met the minimum qualifications of a faculty member.



The Commission on Dental Accreditation has changed its standards to require dental hygiene faculty to meet certain degree requirements that two current faculty do not have. The School wants to pay tuition to complete the required degrees. This education does qualify as an eligible work-related expense because it meets a bona fide academic/business need of the university (keeping accreditation) and it was not part of the minimum job requirements at the time the faculty were hired.

#### SCENARIO 2: NON-IU CLASSES TAKEN BY IU EMPLOYEE

This scenario pertains to a unit covering the full or partial cost of education at another institution or professional agency (CPA, etc.). These payments are normally paid through Accounts Payable as a direct payment to the institution or agency, or directly to the individual as an Out of Pocket Expense Reimbursement.

Under this scenario, a determination should be made first to determine if the courses taken are considered job-related, and therefore, not taxable to the employee. If the courses are considered a business expense and IU has a true business need for the employee to have the additional education, there are no taxable implications to the employee.

NOTE: As a business expense, it is expected that the unit, not the employee, would be the initiating party for the additional education. For compensation, it is expected that the employee asked the unit to cover the costs. This is not always the case, but helps with the tax determination.

#### EXAMPLES:



A customer service representative in FMS and is taking courses to become a CPA. The courses do not qualify as work-related education that can be paid by FMS. Even though the course might improve skills in the specialist's current job, they are part of a course of study that would qualify the specialist for a new job or profession.

	<p> As a result of a review, it was discovered that a teacher in the daycare center did not possess the necessary minimum requirements per the state and the employee should possess a Child Development Associate (CDA) license or an Associate’s Degree. This requirement was not in place when the employee was originally hired. The unit would like to pay for the additional education so that the employee may meet the new requirements. This would not be considered taxable since this is a business need that the staff should have the CDA license and it was initiated by the unit, not the employee.</p> <p> A dean’s office hires a recent law school graduate as a director of undergraduate curriculum by offering to supplement her pay by covering the cost of courses to study for her upcoming bar exam. The courses are not eligible work-related education that can be reimbursed by IU. Being admitted to the bar is not a requirement of the current job and would qualify the employee for a different job.</p>
<b>DEFINITIONS:</b>	<u>Employee Benefits</u> (per HR-04-30): includes all forms of direct or indirect reimbursements, subsidies, payments, etc. for non-business activities, as defined by IRS regulations.
<b>CROSS REFERENCES:</b>	<p><a href="#">IU Tuition Benefit - Plan Information</a></p> <p><a href="#">IU Policy HR-04-30: Employee Benefit Plans</a></p>