

ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001

By

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Section 127 of the IRS Tax Code allows employers to establish a program that will provide up to \$5,250.00 of tuition reimbursement each calendar year to employees on a non-taxable basis. However, the problems for employers were two-fold:

1. Section 127 has always been a temporary part of the IRS Code. As a result, employers watched this deduction for tuition expenses expire ... and then be reinstated so many times that they were never sure if their tuition reimbursement programs would be taxed or not.
2. Section 127 did not apply to graduate level studies. (The Small Business Job Protection Act of 1996 eliminated the tuition deduction for graduate-level studies.)

However, with the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), effective in 2002, both of these problems were solved.

First, Section 127 was **permanently** extended for undergraduate coursework as of December 31, 2001. Therefore, employers no longer have to worry about whether this tuition reimbursement deduction will exist into the future.

Second, Section 127's deduction applies to graduate-level courses beginning after January 1, 2002.

Of course, employers are free to set the tuition reimbursement amount employees receive at a level **less than** the \$5,250.00 maximum. In fact, employers may reimburse employees' tuition beyond the Section 127 limit of \$5,250.00 per year. However, the IRS will only allow the employer to deduct up to \$5,250.00 per employee per year.

On the other hand, if an employee's coursework is "**directly related**" to his/her position, then the reimbursement may qualify as a "**working condition fringe benefit**" under IRS Code Section 132. As a result, the IRS does **not place any limit** on the amount of the deductions the employer is allowed to take.

Practice Pointer:

Re-Examine Your Tuition Reimbursement Policies!

Since the "EGTRRA" is a permanent extension of Section 127, employers are now better able to conduct longer-range planning of their Reimbursement/Education/Development Plans.

Also, do not forget to consider using “Tuition Reimbursement Agreements” whenever the employer pays for an employee’s education or training...regardless of whether the tuition is covered by Sections 127 or 132.