

Do we need to pay tax on the tuition benefit we give to teachers and employees? Answer: No.

by David Goodwin

First, the disclaimer: As with any tax or legal advice, the ACCS provides this information to point our members in the right direction. We are not lawyers or accountants. So, please accept this information accordingly.

In short, neither the school nor the employee need to report the tuition reduction as income to the IRS. However, the discount cannot be exclusive to highly-compensated employees.

Under Internal Revenue Code Section 117(d)

A teacher or staff member of a school (defined in IRC 170(b)(1) below) does not include qualified tuition reductions (even if they are 100%) as part of their Gross Income.

The term "qualified tuition reduction" means the amount of any reduction in tuition provided to an employee of an organization described below for the education.

(A) such employee, or

(B) any person treated as an employee (or whose use is treated as an employee.

(3) Reduction must not discriminate in favor of highly compensated. Highly compensated employee only if such reduction is available on substantially the same terms to each member of a group of employees which is defined under a reasonable classification set up by the employer which does not discriminate in favor of highly compensated employees (within the meaning of section 414(q)). For purposes of this paragraph, the term "highly compensated employee" has the meaning given such term by section 414(q) .

Educational Organizations are defined under the IRC: 7.26.2.3 (03-30-1999)

IRC 170 (b)(1)(A)(ii) Exclusion—Educational Organizations

1 Educational organizations described in IRC 170(b)(1)(A)(ii) and Reg. 1.170A-9(b)(1), such as primary schools and universities, are excluded from private foundation status under IRC 509(a)(1).

2 IRC 170(b)(1)(A)(ii) organizations are commonly known as "schools."

3 An IRC 170(b)(1)(A)(ii) organization must:

A present formal instruction as its primary function,

B normally maintain a regular faculty and curriculum, and

C normally have a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.