

Educational Assistance for Ministers and Church Employees

To encourage continuing education, churches often pay for the educational expense. There are two main ways of doing this so the funds provided for education are non-taxable. **The most frequent is as a qualified business expense (see below).** The second is through an Employer provided educational assistance plan.

Qualified Business Expense

Expenses such as tuition, books, supplies, correspondence courses, and certain travel expenses can be paid for through non-taxable funds, if the education

- Maintains or improves the skill required in the current work, OR
- Is required by the employer (or by law or regulation) to keep the employee's salary, status, or job.

However, the education expenses cannot be provided tax free if the education

- Is required in order to meet the minimum educational requirements of the job, OR
- Is part of a program of study that will lead to qualifying the person for a promotion or new job.

These expenses should either be paid directly or paid through an accountable reimbursement plan just as other business related expenses are paid.

Educational Assistance

Expenses such as tuition, fees, book, and equipment may be provided through an educational assistance program. Unlike business expenses above, it does not include supplies that an employee may retain after completing the education and it does not include meals, lodging or transportation. This benefit can apply both to undergraduate and graduate education. These plans may also be used to cover employee student debts.

Amounts paid by a church through an educational assistance program (up to an annual maximum of \$ 5,250) for an employee's education are not taxable to the employee if the following requirements are met:

1. It must be provided pursuant to a separate written plan the church has to provide educational assistance exclusively for the benefit of the church's employees.
2. An educational assistance program cannot discriminate in favor of highly paid employees or their dependents.
3. The program must not provide eligible employees with a choice between educational assistance and cash salary.
4. The program must provide for reasonable notification of the availability and the terms of the program to eligible employees.

IMPORTANT: Educational expense funds provided by Educational Assistance plans fall under IRS Code Section 127. The church should seek qualified guidance to make sure the plan meets current IRS rules.

If educational expenses are not paid through one of the above methods, the employee may qualify for one of several tax benefits when they file their individual tax returns.