

Church Financial Hot Topic

Church Employee Educational Assistance

Churches encourage their employees to continue their formal education by providing financial assistance to them. The IRS has created a way in IRC Section 127 for churches to assist their employees financially without the assistance being subject to any payroll taxes including the Social Security Self-Employment tax for ministers. An IRC Section 127 Educational Assistance Plan allows the church to assist their employees up to \$5,250 annually. The financial assistance can be used for undergraduate and graduate courses. The employee does not have to complete a degree program to qualify. Also, the employee is not required to attain a particular course grade to be reimbursed for the school expenses. In IRC Section 127, the church has to meet certain written plan requirements, but there are not any federal or state reporting requirements for the financial assistance given to employees. Church-paid educational reimbursements are excludable from the taxable gross income of an employee. Finally, the educational assistance plan must not discriminate in favor of ministers or highly compensated employees or their dependents. The following simple guidelines must be followed by the church in order to create an IRC Section 127 Educational Assistance Plan.

IRC Section 127 Educational Assistance Plan Requirements: For the church to create an exclusion of up to an annual \$5,250 per employee from the employee's gross income, the following requirements must be established by the church: 1) The church must create a separate written plan for the exclusive benefit of the employees to provide such employees with educational assistance. 2) The written plan document cannot favor ministers or highly compensated employees or their dependents. Generally, the church can meet this requirement by making the educational assistance available to all full-time employees. 3) The church cannot give the employees an option between taking the educational assistance or a pay increase or cash. The employee can only use the educational assistance for qualified educational reimbursements. Otherwise, the educational assistance must be returned to the church. Unused educational assistance funds cannot be given to employees as taxable income. 4) The church must provide the eligible employees reasonable notification of the availability and the terms of the educational assistance program.

Educational Assistance Acceptable Reimbursements: Educational assistance provided by the church can include payments for the employee's out of pocket expenses like tuition, fees and similar payments, books, supplies, and equipment. The educational assistance cannot include reimbursement for meals, lodging, transportation, tools, or supplies that an employee may retain after the completion of a course.

Written IRC Section 127 Educational Assistance Plan Example

"The church will provide educational assistance for all full-time employees under an IRC Section 127 Educational Assistance Plan. Employees are limited to an exclusion of up to \$5,250 of educational benefits they receive during a calendar year. Educational assistance provided by a church can include payments for expenses like tuition, fees, books, and equipment. It does not include payment for meals, lodging, transportation, tools, or supplies that an employee may retain after the completion of a course. Receipts must be received by the church within sixty days of expenditure. An educational course study must be approved by the church's finance committee to make sure the educational assistance furthers the church's purpose."

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