



Office Memorandum

Date: October 30, 2013

To: Agency Payroll, HR and Accounting Staff

From: Mary Muellner, Director
Statewide Payroll Services

Subject: Business Expense Policy Change – Taxability of Tuition Reimbursements

The Miscellaneous Expense Policy portion of Operating Policy and Procedure PAY0021, [Employee Business Travel Expenses-Miscellaneous Expenses-Policy](#), has been updated to include a recent change in taxability for tuition reimbursements. Agencies should review the policy change and all of the implications for tuition reimbursements and their taxability as an educational assistance benefit.

- A Federal law was passed in January 2013 extending the \$5,250/year educational assistance benefit allowed under section 127 of the Internal Revenue Code.
- Minnesota did not adopt this extension, making educational assistance benefits subject to MN tax for calendar year 2013.

The [Minnesota Department of Revenue](#) has announced that Minnesota income tax must be withheld from any employer-paid educational assistance benefit reimbursed in calendar year 2013 **unless** those benefits:

- Maintain or improve skills needed for an employee’s current job. This excludes education necessary to meet the minimum job requirements, or that qualifies an employee for new occupations.

OR

- Are provided to employees and their families for classes attended at the educational institution where they are employed.

Job Related? Yes	
\$5,250 or less	Non-taxable for Federal and State
Over \$5,250	Taxable for Federal and State
Job Related? No	
\$5,250 or less	Taxable for MN
Over \$5,250	Taxable for Federal and State

NEW

How do I know if it is job related?

Agencies are responsible for determining if educational assistance benefits are job related.

Resources:

- [IRS Publication 15-B, Employer's Tax Guide to Fringe Benefits](#)
- Minnesota Department of Revenue:
 - [Employer Provided Education Assistance Benefits](#)
 - [FAQs, Employer Provided Education Benefits](#)

Example: Bob is an accountant who is employed by ABC Accounting. ABC Accounting offers an educational assistance program to employees pursuant to Internal Revenue Code Section 127. Bob takes advantage of this benefit and enrolls in a chemistry class for the 2013 spring semester at a local college. Bob's employer reimburses him the \$3,000 he paid to attend the class. The \$3,000 paid to Bob by his employer is considered non-taxable federal wages. The \$3,000 benefit is considered taxable wages to Minnesota because chemistry coursework does not maintain or improve skills needed for his job as an accountant, and could also qualify him for a new career.

Earn Codes

- **TRG:** Training and Tuition – This earn code is used to reimburse employees for tuition through Business Expenses.
- **EDP:** Tuition Waiver – Txbl Fed + MN, Earn code entered in Mass Time Entry (MTE). This code does not pay; but increases an employee's federal and state tax liability.
- **EDQ:** Tuition Waiver – Txbl MN Only, Earn code entered in Mass Time Entry (MTE). This code does not pay; but increases an employee's MN state taxability.

[FIHR6680, Employee Tuition Reimbursement report](#) (DocumentDirect/InfoPac HP6680) is a new report which lists all employees in a department that have had a TRG (Training/Tuition) payment, or have had EDP (Tuition Waiver – Txbl Fed + MN), or EDQ (Tuition Waiver – Txbl MN Only) entered in Mass Time Entry in the current calendar year. This report will run bi-weekly and be available for review each Monday of off-week.

Agency staff with access to HP2062 Payroll Register (DocumentDirect/InfoPac) will have access to this report. Agency staff requiring access should contact infopac.finance@state.mn.us to receive access.

Review this report to identify if any employees receiving tuition/training reimbursements require adjustments to their tax liability.

Tuition Reimbursements over \$5,250/year – There is no change to the current process. Continue to add a taxable value in Mass Time Entry using earn code EDP. This will ensure appropriate federal and state taxes are withheld.

Tuition Reimbursements paid from this point forward must be reviewed to ensure their appropriate taxability based on the guidelines set forth by the Internal Revenue Service and the Minnesota Department of Revenue. Any non-job related tuition reimbursements under \$5,250/year are now subject to Minnesota state tax. **A taxable value must be entered in Mass Time Entry using earn code EDQ.** This should occur at the same time as the reimbursement is paid to ensure appropriate Minnesota state taxes are withheld.

Tuition Reimbursements *already paid* must be reviewed, to insure appropriate taxability depending on the guidelines set forth by the Internal Revenue Service and the Minnesota Department of Revenue. Any non-job related tuition reimbursements under \$5,250/year, which were not taxed are now subject to Minnesota state tax. **A taxable value must be entered in Mass Time Entry using earn code EDQ.** This will ensure the appropriate Minnesota state taxes are now withheld.

When reviewing the report, special consideration will need to be given to the following:

- Conference fees/registrations incorrectly recorded as Training/Tuition (TRG). This is a common error. Conference fees are not included in the \$5,250/year educational assistance benefit allowed under section 127 of the Internal Revenue Code. In the future, all conference fees must be reimbursed using CFI/CFO - Conf/Regist Fee Instate/Outstate.
- Tuition reimbursements submitted after 60 days, which were taxed. These reimbursements will have BTX rows created due to the employee submitting the reimbursement request for payment more than 60 days after the expense was incurred. Reimbursements that included a BTX amount have already been taxed and will not require additional entry to record tax liability.

Note: When processing transactions to record the appropriate tax liability, you must determine if the employee's check includes sufficient net pay to take the appropriate taxes.

To ensure correct W-2 reporting, adjustments for prior reimbursements must be made no later than 11/22/2013.

SEMA4 Help has been updated to reflect these changes, including the new Employee Reimbursement Tuition Procedure. Please refer to Minnesota Management & Budget Operating Policy and Procedure PAY0021 [Employee Business/Travel Expenses Operating Policy and Procedure](#).

Agency Payroll and Human Resources staff should contact Erin Gregory at 651-201-8077 or erin.gregory@state.mn.us if there are questions.

PLEASE SHARE THIS INFORMATION WITH APPROPRIATE AGENCY STAFF