

Revenue Notice # 94-01:

Employer-provided Educational Assistance

(Update: Revenue Notice #94-01 has been repealed by Revenue Notice #03-04.)

Federal Exclusion of Employer-provided Educational Assistance:

The federal government's recently enacted Omnibus Budget Reconciliation Act of 1993 restores the exclusion of up to \$5,250 of employer-provided educational assistance benefits from federal taxable income. The provision, contained in section 127 of the Internal Revenue Code, had expired on June 30, 1992. The Revenue Reconciliation Act retroactively reinstated the provision as of July 1, 1992. The retroactive change has resulted in federal refund claims.

Minnesota Refunds:

Minnesota has not adopted the federal changes. Minnesota may adopt the federal changes this coming year and may or may not choose to apply them retroactively. Until Minnesota law is changed, the Minnesota Department of Revenue cannot allow claims for refund based on the federal changes. However, if a taxpayer files an amended 1992 Minnesota return on the basis of the federal changes, the department will not affirmatively deny the claim for refund. Instead, the department will hold the amended return until the end of the legislative session. If the federal changes are adopted, the department will allow the claim. If not, the department will deny it.

Federal Form W-2, wage and Tax Statement:

When employers amend their employees' 1992 W-2 forms for federal purposes, they should not amend the amount listed for state wages. The department will not require employers to amend their employees' W-2 forms for state purposes. Employers should not adjust state wages on 1993 W-2 forms to reflect the exclusion.

1993 Minnesota Returns:

In 1993, taxpayers who receive educational assistance benefits will have higher Minnesota taxable income than federal taxable income. Because Minnesota income tax forms have not been adjusted to reflect the federal changes, taxpayers will still be using their federal taxable incomes to calculate their Minnesota income tax liabilities. If Minnesota adopts the federal changes, no adjustments will need to be made. If the law is not changed, taxpayers who received educational assistance benefits will have to increase their Minnesota taxable income in 1993.

1994 Withholding:

In 1994, the department will not require employers to withhold state tax attributable to provision of educational assistance benefits to employees. If Minnesota adopts the federal changes for 1994, no adjustments will need to be made by the department or by the taxpayers. If Minnesota does not adopt the federal changes, employers will have to withhold additional tax from employees wages during the second half of the year. If this occurs, the department will abate penalties for employers' late deposits of withheld tax and will not impose additional tax charges on employees' for under-withholding attributable to employer-provided educational assistance.

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