

## Frequently Asked Questions — Student Tax Information

The following are common questions concerning the Strayer University Degrees@Work and Degrees@Work Family program with FCA Dealers. They assume that the Dealer will have adopted a qualified "Section 127 Education Assistance Plan" for its employees that will apply to the Strayer program and that it will be administered as required by law. Dealers should consult with their attorneys to assure adoption of a qualified Section 127 Plan and the proper operation and tax reporting under the Plan and the Strayer Program.

### How does this program relate to the employee's employment?

The kind of program an FCA Dealer has with Strayer generally would be considered to be a "fringe benefit" of the employee if it is provided as part of the employee's compensation of employment, which is assumed to be the case in regard to these FAQs. An employee fringe benefit is anything of value provided to an employee in the nature of compensation for services in addition to wages. Fringe benefits are usually considered to be taxable to the employee to the extent of the value of the benefit received unless there is a specific exclusion of the fringe benefit from taxable income under federal law. Benefits for educational assistance to employees (but not to family members) as provided in this Program are expected to qualify for that exclusion up to a maximum exclusion amount in any year of \$5,250. The value of courses taken by family members will be considered to be taxable income to the employee.

### Who is eligible to take Strayer University courses under the FCA program?

Employees and qualified family members of employees (spouse of the employee and any son, daughter, step-son or step-daughter of the employee) may be eligible depending on the program the FCA Dealer adopts.

An FCA Dealer may enroll in an employee-only program, open only to the full-time employees of the Dealer and any part-time employees the Dealer may also cover. Each Dealer will decide which employees are eligible.

The Dealer may also enroll separately in a "family of employee" program. Under that program, the qualified family members of the employee are all eligible to take Strayer courses, regardless of age. The family member does not have to be a dependent, as that term is defined by IRS, of the employee and there is no age limitation for family members.

In all cases, however, the student has to meet Strayer University prerequisite requirements for enrollment in particular courses.

Enrollment is available under the program for as long as the employee's FCA Dealer remains a subscriber to the program.

### What courses are available from Strayer University?

These are college/university level undergraduate and graduate level courses and include all courses Strayer offers except for its specialized MBA program courses. Courses available may lead to Associate, Bachelor's and Master's Degrees, including a Master's in Business Administration (but excluding Strayer's JWMI EMBA degree program). Employees should consult with Strayer University regarding available courses for any school quarter and the requirements for any of the educational degrees which may be obtained under the Program.

### Does an employee have to inform the dealer if the employee or a family member enrolls in a course?

Yes. The Dealer has tax reporting and information retention requirements under federal tax law regarding

the usage of the benefits available under the Program by employees or family members. The employee is responsible to inform his or her employer Dealer if the employee or family member enrolls in any course and the number of courses of enrollment. As a condition of enrollment in a Strayer course, each qualified student has to provide written consent to Strayer University to allow Strayer to provide such information to the Dealer and to FCA. Enrollment for purposes of this plan will be considered to occur at the end of Strayer University's one-week add/drop period for adding or dropping courses if the participant has not dropped the course in accordance with Strayer's drop policy.

**What amount does an employee or family member have to pay out-of-pocket to Strayer University for each course taken?**

Nothing. The cost of the course, including books and supplies, is fully covered by the Program at no cost to the student. However, the Program does not cover any costs of meals, lodging or transportation which the student may incur in taking the course.

**What amount does an employee or family member have to pay out-of-pocket to the dealer employer for each course taken?**

Nothing for the cost of the courses. The Dealer pays all the costs of the Program. However, the Program does not cover any costs of meals, lodging or transportation which the student may incur in taking the course.

**How does the Internal Revenue Service treat the courses taken by an employee or family member for federal tax purposes?**

The employee may have some taxable income, unless excluded. The fair market value of each course taken by the employee or by a family member is considered to be part of the employee's compensation as an employee of the Dealer, and except to the extent of the exclusion from income for benefits to the employee (up to \$5,250 per year) from the courses taken by employees themselves, the compensation would be taxed as part of the employee's wages.

For federal tax purposes, the family member is not considered to receive any compensation from the Dealer and would have no tax reporting obligation related to any course taken. Instead, it is the employee who is considered as receiving compensation even when it is the family member who has taken the course.

Federal gift tax law may also apply in regard to courses taken by any adult family member who is no longer a dependent of the employee if the total value of all gifts made by the employee to the particular family member during the applicable calendar year exceeds the annual gift tax exclusion amount, currently \$14,000 per year. A spouse is considered to be a dependent for these purposes.

**What part of the benefits from the program may be excluded from the taxable income to the employee?**

The employee will have taxable income for the value of any course taken by a family member. There is no tax-free amount for courses taken by an employee's family member, even if the employee takes no courses in the same year.

Assuming, however, that the Dealer has adopted what is known as a "Section 127 Educational Assistance Plan" or simply a "Section 127 Plan" before the end of the applicable calendar year, the value of courses taken by an employee in any one calendar year will be tax free up to the amount of \$5,250, and only the value of courses taken in the year in excess of that amount, if any, will be taxable income to the employee.

Each Dealer enrolled in the Strayer University Program is expected to have adopted a qualified Section

127 Plan and the related education benefit plan which would be applicable to all qualified Strayer courses taken by an employee.

**What is a Section 127 plan? Are there any benefits that would not be allowed to be received tax free?**

Section 127 refers to Section 127 of the federal Internal Revenue Code ("IRC"). It provides tax benefits only to employees of an employer who has adopted a qualified plan under Section 127. That code section allows an employer to adopt a written "educational assistance program" and to pay or incur the cost of a program which provides qualified educational assistance to its employees. Under a qualified Section 127 Plan, the employee can exclude from his or her taxable income the first \$5,250 of educational assistance benefit received from the employer.

A Section 127 Plan cannot provide benefits to a spouse or family members.

The term "educational assistance" by statute cannot include (i) any costs for tools or supplies (other than textbooks) which may be retained by the Participant after completion of the education course, (ii) costs of meals, lodging or transportation incidental to taking any education course, and (iii) any course that instructs the Participant in any sport, game or hobby, unless the course is required as part of a degree program.

**How and when are the value of employee courses reported to IRS?**

Any taxable portion of the benefits (after any applicable exclusion) becomes taxable income during the calendar year in which the enrollment in the course occurred. Taxable income is to be reported to IRS as wage income on the employee's Form W-2, subject to income and social security tax withholding.

Any taxable amounts are to be reported as part of a current payroll if charged as income on a payroll date. Otherwise, the amounts are reportable as part of the immediate prior payroll or the immediate subsequent payroll in the same calendar year.

Dealers should consult with their company's accountant as to a consistent method for reporting any taxable income related to the program courses.

**When and how are the value of the family courses reported to IRS?**

The value of the course becomes taxable income to the employee at the time of enrollment for the course, subject to income tax and social security withholding, in the same manner for any taxable income related to the courses taken by the employee.

**What is the reportable value of the Strayer courses for federal income and social security tax purposes?**

The value of the courses for income tax purposes is the "fair market value" determined "on the basis of all facts and circumstances."

The employer is obligated to make the determination of fair market value. That determination, however, is subject to challenge by IRS in the event of a tax audit involving these education benefit plans and the Section 127 plan.

The Dealer should consult with its tax advisors in making the determination of fair market value.



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### **How long does IRS have to challenge the valuation of the course?**

IRS could challenge the valuation of the Strayer courses for a particular tax year in a tax audit of the income tax return of either the employee or the Dealer for that year. In most cases, a tax return is subject to audit until the usual statute of limitations has expired for that tax year. For timely filed tax returns, that audit period lasts for three years from the date the tax return was due, including any extensions of time to file.