

Subject: Taxation of Professional Exam Fees	Author: Jon Rexroat
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Purpose

The purpose of this policy is to inform University departments of the potential tax issues surrounding the payment of exam fees or other professional certification expenditures made on behalf of employees.

Background

From time to time, departments request payments for professional exam fees or other costs relating to professional certification or licensure on behalf of their employees. Such payments are made at the discretion of each department and are provided as either a reimbursement to the employee or are paid directly to the certifying body itself through either Travel and Expense or using a departmental procurement card.

While the nature and purpose of these fees can vary, the Internal Revenue Service (IRS) usually treats such payments as fringe benefits subject to taxation. It is a common misconception that payments for expenses relating to professional certifications can be provided to an employee free of tax if the department requires the employee to seek the certification or if the department is somehow benefited by it. According to the IRS, however, employer motivation is not the primary test in determining whether or not a taxable benefit has ultimately been provided to an employee.

IRS Rules

If a payment or reimbursement relates to maintaining an employee's existing license, certification, or skill, then the payment can be treated as a working condition fringe benefit under Internal Revenue Code (IRC) § 132(d) and thus excluded from an employee's taxable income. Examples of working condition fringe benefits include:

- Fees relating to medical, attorney, or Certified Public Accountant (CPA) license renewals
- Professional society dues relating to the employee's current job duties
- Fees for continuing education courses that enhance an existing skill or job duty
- Certain periodic exam fees necessary to renew or maintain an existing certification, license, or skill

Payments or reimbursements made to acquire a new license, certification, or skill are taxable to the employee. Examples include:

- Exam fees or any other fees paid to acquire an initial medical license or initial certification in a specialized area of medicine
- CPA exam fees or amounts paid for an initial CPA license
- Bar exam fees and incidental expenses in securing initial admission to the bar
- Fees paid for professional examination review courses

The examples above are not all-inclusive. Additional examples and guidance can be found in Treasury regulation § 1.162-5 and IRS Publications 529, 535, and 970.

Policy

In accordance with IRS rules and regulations, it is the policy of the University that professional examination fees or any other costs paid on behalf of employees that lead to a new license, certification, or skill are reportable as taxable fringe benefits to employees.

If an employee or department believes that a particular payment or item of reimbursement does not result in a new license, certification, or skill, then the employee or unit business manager should submit a thorough written explanation detailing the nature of the expense along with any related documentation to the Tax Department. This process should be used regardless of the method of payment (i.e. reimbursement or direct payment via check or procurement card). The Tax Department will examine all available facts and circumstances and determine if the expenditure qualifies as an excludible working condition fringe benefit under IRC § 132(d).