

GovCon BD Upskilling Program

IRS Section 127 Guide

Educational Assistance Programs

Guide | Version 1.0

30-DAY FOUNDATION PROGRAM

Employer-Sponsored Training for GovCon Business Development

GovConGiants

Professional Training for Government Contractors

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What is Section 127?

IRS Section 127 allows employers to provide employees with tax-free educational assistance up to **\$5,250 per year**. This benefit:

- Is **tax-free for the employee** (not reported as income)
- Is **tax-deductible for the employer** (business expense)
- Covers job-related and non-job-related education
- Includes tuition, fees, books, supplies, and equipment

Source: IRS Publication 15-B and IRC Section 127

How This Applies to GovCon BD Upskilling

Program Cost

30-Day Foundation	\$3,999	Yes (\$1,251 under limit)
60-Day Practitioner	TBD	Check against \$5,250 limit
90-Day Professional	TBD	Check against \$5,250 limit

Tax Benefit Summary

Employee	\$3,999 received tax-free (no income tax, no FICA)
Employer	\$3,999 deductible as business expense

Example Calculation

For an employee in the 24% federal tax bracket:

Employee would pay \$960 in federal income tax	Employee pays \$0
Employee would pay \$306 in FICA (7.65%)	Employee pays \$0
Total employee tax burden: \$1,266	Total employee tax burden: \$0

For the employer:

- Training cost: \$3,999
- IRS Section 127 tax-free benefit: -\$3,999
- **Effective cost: \$0**

Key Point

Since \$3,999 is below the \$5,250 annual limit, the **entire training cost is tax-free** under Section 127—making the employer’s effective cost \$0.

Section 127 Requirements

Written Plan Requirement

Employers must have a **written Educational Assistance Program (EAP)** that meets these requirements:

Written plan	Must be documented in writing
Employee notification	Employees must be informed of the plan
Nondiscrimination	Cannot favor highly compensated employees
No choice	Employees cannot choose cash instead of education
5% owner limit	Benefits to 5%+ owners limited to 5% of total benefits

Eligible Expenses

Tuition and fees	Meals and lodging
Books and supplies	Transportation
Equipment required for course	Courses involving sports/games (unless job-related)
Tools and materials	

What Qualifies as “Education”

Section 127 covers education that:

- Maintains or improves job skills, OR
- Is required by employer or law to keep current job, OR
- Leads to a degree or certification

Program Qualification

The GovCon BD Upskilling program qualifies because it:

- Improves job-related skills (BD, capture, federal contracting)
- Is employer-required training for job improvement
- Results in a Certificate of Completion

Setting Up a Section 127 Plan

Step 1: Create Written Plan Document

Your plan document should include:

[COMPANY NAME]
EDUCATIONAL ASSISTANCE PROGRAM

Effective Date: [DATE]

1. PURPOSE

[Company] establishes this Educational Assistance Program under IRC Section 127 to provide tax-free educational assistance to eligible employees.

2. ELIGIBILITY

All employees who have completed [X] days of employment are eligible to participate.

3. COVERED EXPENSES

The following educational expenses are covered:

- Tuition and fees
- Books and supplies
- Required equipment and materials

4. ANNUAL LIMIT

The maximum annual benefit per employee is \ \$5,250.

5. NONDISCRIMINATION

This plan does not discriminate in favor of highly compensated employees. Benefits are available on substantially the same terms to all eligible employees.

6. NO CASH OPTION

Employees may not receive cash in lieu of educational benefits.

7. ADMINISTRATION

[HR Contact] administers this program. Requests for educational assistance should be submitted to [process].

Approved by: _____

Date: _____

Step 2: Notify Employees

- Include plan in employee handbook
- Announce during onboarding
- Send annual reminder of benefit availability

Step 3: Establish Process

1. Employee requests training approval
2. Manager/HR approves based on job relevance
3. Company pays training provider directly (preferred) or reimburses employee
4. HR tracks benefits per employee annually
5. Benefits are excluded from W-2 (up to \$5,250)

Documentation Checklist

For the Employer

- Written EAP plan document
- Employee notification records
- Training approval records
- Payment/reimbursement receipts
- Annual benefit tracking per employee
- Nondiscrimination testing records

For Each Training Event

Training approval form	Evidence of employer approval
Invoice from provider	Cost documentation
Payment confirmation	Proof of payment
Certificate of Completion	Proof of participation
Course description	Job-relevance documentation

Reporting Requirements

W-2 Reporting

Benefits ≤ \$5,250/year	Exclude from W-2 (Box 1)
Benefits > \$5,250/year	Include excess in W-2 as wages

Employer Tax Return

- Report educational assistance as business expense
- No separate IRS form required for Section 127 plan
- Maintain records for audit purposes

Frequently Asked Questions

General Questions

Q: Does the education have to be job-related?

A: No. Under Section 127, employers can pay for education that is not directly job-related (unlike Section 132 working condition fringe benefits). However, GovCon BD Upskilling IS job-related for federal contractors.

Q: Can we cover training for an employee’s spouse or dependent?

A: No. Section 127 only covers the employee.

Q: Can employees in any role receive this benefit?

A: Yes, as long as the plan doesn’t discriminate in favor of highly compensated employees.

Q: What if we exceed \$5,250 in a year for one employee?

A: The amount over \$5,250 is taxable as wages and must be included on the employee’s W-2.

Plan Administration

Q: Do we need IRS approval for our plan?

A: No. You create the plan document internally. Keep records in case of audit.

Q: How do we prove nondiscrimination?

A: Document that benefits are available to all eligible employees on the same terms. Track participation by employee classification.

Q: Can we require employees to stay a certain time after training?

A: Yes. Many employers include a “service commitment” requiring repayment if the employee leaves within 12-24 months. This is a separate contractual matter, not an IRS requirement.

GovCon BD Upskilling Specific

Q: Does GovCon BD Upskilling qualify under Section 127?

A: Yes. It is education that improves job skills and results in a completion certificate.

Q: Can we pay the training provider directly?

A: Yes. Direct payment to the provider is the cleanest approach and avoids any reimbursement complexity.

Q: What documentation do we need from the training provider?

A: Invoice, course description, and completion certificate.

Sample Forms

Training Request Form

EDUCATIONAL ASSISTANCE REQUEST FORM

Employee Name: _____

Department: _____

Date: _____

Training Program: GovCon BD Upskilling - 30-Day Foundation

Provider: [Provider Name]

Cost: \ \$3,999
 Start Date: _____

Job Relevance:
 Improves skills for current position
 Prepares for future role
 Required for certification/compliance

Manager Approval: _____
 Date: _____

HR Approval: _____
 Date: _____

Section 127 Eligible: Yes No
 YTD Section 127 Benefits Used: \$_____
 Remaining Benefit Available: \$_____

Service Commitment Agreement (Optional)

TRAINING SERVICE COMMITMENT

In consideration of [Company] paying for my participation in [Training Program] at a cost of \ \$[Amount], I agree to remain employed with [Company] for a minimum of [12/24] months following completion of the training.

If I voluntarily resign or am terminated for cause before completing the service commitment, I agree to repay a prorated portion of the training cost as follows:

- Leave within 6 months: Repay 100%
- Leave within 6-12 months: Repay 50%
- Leave after 12 months: No repayment required

Employee Signature: _____
 Date: _____

Company Representative: _____
 Date: _____

Resources

IRS Resources

Publication 15-B	irs.gov/pub/irs-pdf/p15b.pdf
IRC Section 127	law.cornell.edu/uscode/text/26/127
IRS Educational Assistance FAQ	irs.gov/newsroom/employer-offered-educational-assistance-programs

Professional Guidance

For complex situations, consult:

- Tax attorney or CPA
- HR/Benefits consultant
- Payroll provider

Disclaimer

This guide provides general information about IRS Section 127 and is not tax or legal advice. Consult a qualified tax professional or attorney for guidance specific to your company's situation.