

Minnesota Department of Human Services Nursing Facility Employee Scholarship Program: Overview and Tax and Reporting Implications

About the Program

In 2001, Minnesota passed legislation to provide funding to nursing facilities (NFs) in the form of a per diem rate increase, to fund those facilities electing to participate in the NF employee scholarship program. These monies are provided to participating NFs as a pass-through and must be utilized exclusively and wholly as employee scholarships. The intent of the employee scholarship program is to enhance the long-term care workforce by providing NFs a practical tool to assist in the recruitment, retention, and education of long-term care workers.

Prior to July 1, 2015, the program was for employees working an average of 20 hours per week in a nursing home or nursing home portion of an organization. Eligible employees did not include a facility Administrator, Department Supervisor, or Registered Nurse (RN). The program covered education in the following areas:

- Course of study that leads to career advancement within facility or within long-term care;
- Medical care interpreter services; and
- Social work

Expenses related to nurse aide training/testing, those reimbursed or paid by a third party, or those required to maintain current licensure/certification were excluded from the program. Eligible expenses included tuition, books, and required fees, supplies or equipment.

The program received additional funding during the 2015 legislative session and as of July 1, 2015 now covers additional training and expenses. Changes made to the program are highlighted below.

Program Changes

Work Requirement

The average weekly work requirement for scholarship recipients has been reduced from an average of 20 to 10 hours per week. To be eligible to receive scholarship monies, employees must work the required 10 hour average per week in the nursing facility during the period covered by the scholarship.

To determine the average hours worked for the period of time during which the employee is attending classes or training, the employee must work a minimum average of 10 hours per week, 20 hours per bi-weekly period or 130 hours per calendar quarter while in training. These hours can be pro-rated for partial periods of time (i.e. in school for part of one session and part of another session).

The 10 hour average weekly work requirement does not apply to scholarships being granted to cover reimbursement for nurse aide expenses.

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Bailly LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016

Eligible Individuals

Scholarship program eligibility has been expanded to cover Registered Nurses (RNs) and Department Supervisors/Managers within the facility.

Facility Administrators remain ineligible to participate in the DHS Employee Scholarship program.

Eligible Programs for Scholarship Funding

Funding may now be provided for the following programs which were not eligible in the past:

- Nurse aide training, testing and associated costs
- Nursing student loan reimbursement

Eligible Expenses

The scholarship program has been expanded to cover reasonable costs for transportation and child care expenses related to an eligible course of study, reimbursement of student loan expenses, and nurse aide training, testing and associated costs. More detail on the expanded eligible expenses is found below.

Transportation Expenses – to be eligible for coverage under the scholarship program, transportation expenses must:

- Relate directly to the education and/or training covered by the scholarship awarded (e.g. costs related to transportation to/from training, education or testing sites on days that the individual is engaged in these activities). Reimbursable transportation costs do not include costs of automobile maintenance such as oil, fluids, car repairs or other maintenance costs.
- Be documented by the employee – mileage log, receipts for bus fare, etc.
- Not exceed a reasonable amount as determined by DHS. Transportation costs include, but are not necessarily limited to, mileage, bus fare, and parking fees.

Mileage costs are capped at the annual IRS mileage rate for business related travel. Rate for 2015 is 57.5 cents per mile and rate for 2016 is 54 cents per mile.

Child Care Expenses – to be eligible for coverage under the scholarship program, child care expenses must:

- Relate directly to the education and/or training covered by the scholarship awarded (e.g. child care costs incurred during the period of time that the individual pursues training, education or testing covered by the scholarship award). Child care costs are not covered for any period of time that the employee is receiving wages. Child care costs that are unreasonable may be disallowed by DHS.
- Be documented by the employee, include a detailed statement of costs incurred, and be signed by the child care provider.
- Cover only children the employee is legally responsible for – child, adopted child, stepchild, etc.
- Not exceed a reasonable amount as determined by DHS. Child care costs include, but are not necessarily limited to, the hourly, daily or weekly rate charged by a child care provider.

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Baily LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016

DHS has set a ceiling for child care costs that can be reimbursed under the scholarship program. Child care costs reimbursed cannot exceed the lower of actual documented costs or the prevailing hourly wage for a commercial child care provider in the local area.

Child care costs exclude those items that would normally be provided to a child whether or not the child was in daycare, such as diapers, food, etc.

For facility convenience, sample transportation and child care logs have been posted on the DHS website. Nursing facilities are not obligated to utilize these forms, but should use some form of documentation that clearly provides all the required information. This information should be retained as part of each scholarship file, in case of audit.

Reimbursement of Student Loan Expenses – The employee scholarship program will now provide for reimbursement of student loan expenses incurred while completing a Licensed Practical Nurse (LPN) or Registered Nurse (RN) degree program, for newly hired and recently graduated LPNs and RNs.

“Expenses” include the periodic required minimum loan payments due while employed by the facility, but not total loan balances due.

DHS will recognize as an allowable scholarship, reimbursement of the monthly, quarterly or annual payments of student loan expenses by the facility (up to the actual expenses for the period being reimbursed). These expenses are covered under the scholarship program only for the period of time an eligible LPN or RN is employed by the facility. For example: Employee A is a recently hired, newly graduated RN. She has a monthly student loan payment due of \$ 450.00. The facility could reimburse this periodic student loan payment of \$ 450.00 each month, on a quarterly basis (\$ 1,350.00) or on an annual basis (\$ 5,400.00) – for the period of time the RN is employed by the facility.

For the purposes of the scholarship program, “newly hired” is defined as an individual hired within the last 12 calendar months. “Recently graduated” is defined as having graduated within 12 calendar months prior to being offered a job with the facility.

Reimbursement of Nurse Aide Costs – Under both federal and state law, nursing facilities are required under certain circumstances to reimburse the costs of nurse aide training, testing and associated costs, to the nurse aide.

The employee scholarship program will now provide for facility reimbursement **in whole** of these costs for newly hired and recently graduated nurse aides. The items eligible for nurse aide reimbursement as well as required documentation have not changed.

For the purposes of the scholarship program, “newly hired” is defined as an individual hired within the last 12 calendar months. “Recently graduated” is defined as having graduated within 12 calendar months prior to being offered a job with the facility.

Individuals granted scholarships to cover reimbursement of eligible nurse aide expenses are not required to meet the hourly weekly work requirement of 10 hours per week.

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Baily LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016

Tax Implications for Employees

An employee must include in income the value of educational benefits provided by an employer unless the cost of such benefits is provided under an educational assistance program of the employer, qualifies as a working condition fringe or meets the definition of a qualified scholarship.

Tuition and other fees

Tuition and other educational fees will typically be tax-free under employer-provided educational assistance programs. Employer-provided educational assistance programs allow an employee to receive up to \$5,250 a year of tax-free educational assistance. A qualified educational assistance program may cover tuition and related fees, books and supplies. However, individuals may not receive tax-free advances or reimbursements under the plan for tools or supplies (other than textbooks) that can be retained after the course ends, or for meal, lodging, or transportation costs.

If the employer does not have a formal educational assistance program or if the amount reimbursed is in excess of the \$5,250 threshold, the education assistance may still be tax free if the reimbursement qualifies as a working condition fringe benefit. A tax-free working condition fringe benefit is any business-related expense that employees could deduct on their individual tax return under IRC section 162 if they themselves paid it. For education related expenses to meet this definition, the education must either 1) be required by the employer or law to keep the current salary, status or job and meet a bona fide business purpose of the employer or 2) maintain or improve skills needed in the job. However, even if one of the above are met, if the education 1) is needed to meet the minimum educational requirement for the employee's current job or 2) is part of a program of study that will qualify the employee for a new trade it is not a qualifying working condition fringe benefit.

If the educational funds are received in **pursuit of a degree** at an **eligible educational institution**, the amounts can also be classified as tax-free scholarships. The funds must be used for qualified education expenses and cannot represent payment for teaching, research, or other services required as a condition for receiving the scholarship.

Regardless of the qualification for tax-free status, individuals must substantiate the expenses to employers, and be required to return any excess amount.

Student Loans and Nurse Aide Costs

Reimbursement of expenses for student loans and nurse aide costs are tax-free to the extent the reimbursement does not exceed the expense incurred. Individuals cannot deduct the interest paid on student loans to the extent payments were reimbursed through a scholarship program.

Transportation and Child Care Costs

Reimbursement of transportation expenses and child care expenses are not tax-free and must be included in an employee's income as they do not constitute a deductible employee business expense or a qualified education expense.

For additional information regarding the taxability of educational expenses please see IRS Publication 970 – Tax Benefits for Education.

Reporting Implications for Nursing Facilities

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Baily LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016

Program Reporting Requirements

The Nursing Facility Rates and Policy Division of DHS is responsible for monitoring the use of state funds for those nursing facilities participating in the scholarship program. On an annual basis, information regarding amounts paid under a scholarship program are reported on Section 7 of the facility Statistical and Cost Report, through the Provider Portal. These amounts are then used along with the number of resident days to calculate the adjusted per diem.

Rate Calculations

Facilities that close beds

Nursing facilities that close beds during the rate year may request a recalculation of the scholarship per diem for the remainder of the rate year to reflect the reduction in resident days (if the resulting rate adjustment equals \$.15 or greater).

Facilities Without a Current Program

Nursing facilities not currently participating in the employee scholarship program may request, for the period beginning 10/1/15 through 12/31/17, a scholarship per diem of up to 25 cents per resident day to be used exclusively to cover eligible scholarship program costs. Monies not utilized to provide employee scholarships will be recouped from the facility at a later date.

Administrative Requirements

Nursing facilities with existing programs should review their scholarship program policies and procedures and consider modifications for the expanded eligible expenses. Nursing facilities are responsible for maintaining files on all employees receiving assistance through the program.

For additional information on the program, please visit the Minnesota Department of Human Services website. DHS offers training on the policies and procedures for the program, which can be setup by calling Munna Yasiri at 651-431-2264.

Tax Implications for Employers

Employer-Provided Educational Assistance Program

In order for the payments made to employees to qualify as tax free under an educational assistance program, employers must ensure they have a formal program that meets all of the requirements. To qualify, the plan must meet the following:

- Must have a separate written plan;
- Benefits provided must consist solely of educational assistance;
- Program may benefit only employees of the employer;
- Program must not discriminate based on highly compensated employees;
- Not more than 5% of the program's benefits are for officers or highly compensated employees; and
- Reasonable notice of the program is given to eligible employees

For more information on employer-provided educational assistance programs, see IRS Publication 15-B – Employer's Guide to Fringe Benefits.

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Bailly LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016

Tax reporting

The amount of reimbursement that does not qualify as tax free under either an employer-provided educational assistance or working condition fringe benefit will need to be treated as taxable income to the employee and must be reported to the employee as taxable income on Form W-2.

For more information on employer-provided educational assistance programs, see IRS Publication 15-B – Employer’s Guide to Fringe Benefits.

IRS Reporting

In addition to maintaining documentation as required by DHS, nursing facilities may have additional tax reporting on their IRS Form 990. For facilities receiving pass-through scholarship funds which they treat as scholarships for tax purposes, (and treating them as tax-free as scholarships), Schedule I – Grants and Other Assistance to Organizations, Governments, and Individuals may be required if the amount of scholarships is more than \$5,000, . This schedule asks if facilities maintain records to substantiate the amount of the grants or assistance, the grantees’ eligibility, and the selection criteria used. In addition, the nursing facility must describe the procedures for monitoring the use of the funds. Facilities must be able to provide the number of recipients receiving a certain type of assistance and the total dollar amount that group of individuals received.

Prepared by: Kim C. Hunwardsen, Partner-Exempt Organization Tax, Eide Bailly LLP, US Bancorp Center, 800 Nicollet Mall, Suite 1300, Minneapolis, MN 55402

January, 2016