

## Educational Assistance Programs

Internal Revenue Code § 127 allows employers to provide tax-free educational assistance benefits to their employees of up to \$5,250 per employee per year through a qualified educational assistance program.

**Educational assistance** means amounts an employee pays or incurs for their own education expenses. Expenses may include the cost of books, equipment, fees, supplies, and tuition. However, they do not include the cost of a course or other education involving sports, games, or hobbies, unless the education has a reasonable relationship to the employer's business or is required as part of a degree program.

Education expenses do not include lodging, meals, transportation, or the cost of tools or supplies employees may keep at the end of a course (other than textbooks). Employees must be able to substantiate qualifying education expenses.

### Program Requirements

A qualified educational assistance program requires a formal, written plan document and must meet each of the following requirements:

- The program benefits employees who qualify under rules set up by the employer that do not favor highly compensated employees.
- The program does not provide over 5% of its benefits during the year for shareholders or owners (or their spouses or dependents). A shareholder or owner is someone who owns (on any day of the year) over 5% of the stock or of the capital or profits interest of the business.
- The program does not provide the option for employees to take cash or other noneducational benefits, included in gross income, instead of educational aid.
- Reasonable notice of the program's terms and availability is provided to eligible employees.

### Prohibited Discrimination

Educational assistance programs may test for prohibited discrimination by applying the same standards under § 410(b)(1)(B) used by qualified pension, profit-sharing, and stock bonus plans. Employees covered by a collective bargaining agreement may be excluded if there is evidence that education assistance was included in good-faith bargaining.

### Student Loans

Section 2206 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) expands the definition of educational assistance to include certain employer payments of student loans paid after March 27, 2020, and before January 1, 2026. Amounts paid by an employer, whether paid to the employee or to a lender, for a qualified education loan incurred by an employee for the education of the employee are excluded from the employee's gross wages.

Loans from a related person or qualified employer plan are not qualified student loans.

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