

Compliance Bulletin

Brought to you by: Employee Benefit Associates, Inc.

CARES Act and CAA Allow Tax-free Student Loan Assistance



Among other measures aimed at easing student loan burdens during the coronavirus pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) includes a provision that temporarily allows employers to make tax-free payments of **up to \$5,250** toward their employees' student loans. The final date for employer contributions to receive tax-free status was initially Dec. 31, 2020, but the Consolidated Appropriations Act (CAA), which was signed into law on Dec. 27, 2020, **extended this provision through 2025**.

During this time frame, employer payments toward their employees' qualified educational loans can be excluded from the employees' taxable income, resulting in tax advantages for both parties. Employer contributions made outside of this time frame or in excess of the monetary limit are generally considered taxable wages subject to all employment taxes.

Section 127 of the Internal Revenue Code already allows employers to pay up to \$5,250 per year toward employees' qualified educational expenses—such as for tuition and textbooks—on a tax-free basis. The CARES Act provision expands that law to include student-loan repayment assistance as qualified educational expenses. This means that employers may, through 2025, provide each employee with up to the maximum in either education-related expenses, student loan payments or a combination of both.

Section 127 also requires employers to have a written educational assistance plan that meets specified content requirements.

Action Steps

Employers should consider establishing—or amending any existing—written educational assistance programs to take advantage of the favorable tax treatment for contributions toward their employees' student loans.

Highlights

Tax-free Employer Payments

The CARES Act added qualified student loan payments as acceptable tax-free contributions to education-related employee benefits. The CAA extended this provision through 2025.

Written Program Required

Employer payments must be made under a written educational assistance program that meets IRS requirements.

Other Student Loan Relief

Related CARES Act provisions temporarily suspend interest accrual and repayment requirements for certain federal student loans.

Important Dates

March 27, 2020

Initial date for tax-free employer contributions to eligible employee student loans.

Dec. 31, 2025

Final date for employer contributions to receive tax-free status.

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