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Employer Student Loan Tax Benefit in the CARES Act

By Brad Smith

As part of the Coronavirus Aid, Relief and Economic Security (CARES) Act, payments made between March 27 and December 31, 2020 toward employee's student loan debt may be eligible for a tax benefit. Employees can exclude up to $5,250 from their gross income, so long as the payments are for retirement of student debt. This section (Section 2206) of the CARES Act amends IRC Section 127 (IRC 127) by adding a special rule in the form of Section 127(c)(1)(B).

Prior to CARES, IRC 127 allowed for tuition paid for an employee's current education (up to $5,250) to be excluded from gross income. Under IRC 127, because the benefit is not income to the employee, the employer is not paying payroll taxes while assisting their employees in paying off their debt. The CARES Act provides a temporary window through the end of the 2020 to apply the tax benefit for prior education student loan principal and interest. Payments may be made to employees or directly to the employee's lender.

Employees with student loans have been able to claim a deduction for interest paid up to $2,500. The CARES Act prevents employees from claiming this deduction and the $5,250 exclusion from their gross income. In a sense, they cannot "double dip".

Employers who offer an educational assistance program as prescribed through IRC 127 must have the following elements:

- Be set forth in writing
- Not be discriminatory in terms of eligibility
- Adhere to restrictions on the eligibility of principals who own at least 5% of the company
- Not be offered as a replacement to other remuneration (i.e. allocation of salary), and
- Be communicated to employees sufficiently

Why Add the Student Loan Benefit Now?

Many Americans struggle with student debt and this entices employers to create an educational assistance program or revise an existing program to include student loan repayments. It is a benefit that can set companies apart from competitors. This benefit would be especially valuable to employers who are highly competitive in hiring recent college graduates. Surveys from 2019, including a Society of Human Resources Institute survey, indicate that less than 10% of employers are offering the student loan repayment benefit.

What Next?

There is some thought that this temporary exclusion from gross income may become permanent. It would make sense, the IRS provides the benefit for students to stay out of (or reduce) debt through excluding tuition reimbursement from gross income, it seems it could do the same in allowing employees to get out of debt quicker.

It is not difficult to set up and administer an educational assistance program and right now they can provide employees and employers with a substantial tax free benefit. The one challenge to the benefit is that is one that is not available for all employees to enjoy, as opposed to health insurance, short-term disability, etc. However, offering this as a benefit could prove valuable to employers in attracting talented employees.

Questions? Contact the Findley consultant you normally work with, or Brad Smith at brad.smith@findley.com, or 419.327.4414