



**SWC Business Brief**

# The Business Benefit to Helping Your Employees Pay Off Their Student Loans



Tax planning and financial strategy. Simplified.®

# TABLE OF CONTENTS

<b>Introduction: The Business Benefit to Helping Your Employees Pay Off Their Student Loans</b> .....	<b>3</b>
Creating a Section 127 Education Assistance Program.....	4
Determining if a Section 127 Education Assistance Program is Right for Your Business .....	6

Stees, Walker & Company, LLP (SWC)  
16875 W. Bernardo Drive, Ste. 290 | San Diego, CA 92127  
p: (858) 487-4580 | f: (858) 487-8033 | e: admin@steeswalker.com | w: SteesWalker.com

©2021 Stees, Walker & Company, LLP (SWC) | All rights reserved. | No portion of this booklet may be used without the express and written permission of Laura Stees

## INTRODUCTION

# The Business Benefit to Helping Your Employees Pay Off Their Student Loans



Thanks to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 21, 2020, employers have a valuable new benefit they can offer to their employees – tax-free employer student loan assistance. And as you’ll see below, this benevolent act has tax advantages for your business.

According to the provision created by Section 2206 of the CARES Act, an employer can pay up to \$5,250 in student loan payments for an employee each year, either to the student loan servicer or directly to the employee. Payments are tax-free for the employee, and the employer receives a payroll tax exclusion on that amount.

Originally intended to expire in 2020, the program has been extended through December 2025 under the Consolidated Appropriations Act (CAA), with those of us here at SWC believing it’s likely to be extended beyond 2025.

### ***The Benefits of Helping Employees Pay Their Student Loans***

As a business owner, you know that *tax-free* isn’t *free*. You pay for every benefit that you offer and that your employees take advantage of. The payroll tax exclusion slightly offsets the cost you incur, but employees benefit most in respect to the student loan relief and the fact that they don’t pay income tax on that compensation.

So, what's in it for you? Consider the following potential benefits:

- The payroll tax exemption already mentioned
- An incentive that can help with your recruitment efforts
- Increased employee retention and loyalty
- A well-educated and trained workforce
- More focused employees (you're helping employees address a major concern)

Keep in mind that \$5,250 is the *maximum* amount you can pay tax-free. Many businesses offer significantly less. For example, one American multinational financial services corporation that we're familiar with offers employees \$2,000 per year up to \$10,000 over five years (only the first five years are tax-exempt). You decide on the amount of student loan assistance to provide.

You also decide on the duration of your program. You may extend it out to 10 years or longer, but right now it's tax-free only to the end of 2025.

### ***Creating a Section 127 Education Assistance Program***

Section 127 of the Internal Revenue Code provides an exclusion from an employee's gross income for reimbursement of educational costs under the employer's education assistance program. This tax exclusion for employees has been in place for some time with a cap of \$5,250 tax-free per calendar year.

Section 2206 of the CARES Act amends Section 127 to allow an employer to offer repayment of an employee's qualified education loan as a tax-free benefit under the employer's education assistance program.

To offer this benefit, you must establish a Section 127 employer education assistance program, then put it in writing, and communicate its terms to eligible employees. And of course, we here at SWC can help you with this! If you decide to go it alone, your plan must meet the following requirements:

- Section 127 employer education assistance programs can't discriminate in favor of highly compensated employees (HCEs). In 2021, an HCE is defined as someone receiving



compensation of more than \$130,000 in 2020 or those who own a 5 percent or greater stake in the company.

- Section 127 employer education assistance programs can't discriminate in favor of collectively bargained employees, unless educational assistance benefits were the subject of good faith bargaining.
- Nondiscrimination is subject to controlled group rules, meaning if two or more corporations are considered to be a single employer, employees of one corporation can't be favored over those of the other(s).
- The calendar year \$5,250 maximum exclusion covers all employer educational assistance. So, for example, \$2,000 tax-free can go toward an employee's student loan, and \$3,250 can go toward reimbursing an employee for current educational opportunities the employee is pursuing.
- The benefits under the plan must be *employer-paid* benefits, meaning an employee's pay cannot be reduced to help cover the cost of the benefit.

Section 2206 of the CARES Act applies only to qualified education loans, as per Chapter 4 of IRS Publication 970. Generally, an education loan must meet the following conditions to qualify:

- The loan had to be incurred for the costs of pursuing a college degree, education certificate, or other recognized educational credential while carrying a course load of at least half of the normal course load for the chosen course of study.
- The loan must be from a government or financial institution, not an individual, such as a family member.
- The loan must have been incurred to attend an eligible education institution, which generally includes all colleges, universities, vocational schools, and other post-secondary education institutions eligible to participate in the federal student aid program.



- Eligible education expenses include tuition, fees, books, supplies, transportation, room and board, and miscellaneous personal expenses.

### ***Determining if a Section 127 Education Assistance Program is Right for Your Business***

Many businesses are struggling to survive the financial strain resulting from the COVID-19 pandemic and aren't in a position to offer additional benefits to employees. In fact, only about one in 10 companies offer student loan assistance to their employees. However, as we recover from the pandemic, more employers are likely to offer some form of student loan assistance.

*The Society for Human Resource Management predicts that the number of companies offering a student loan benefit could rise to one in three if the government continues to allow them to avoid taxes on the payments.*



To successfully compete for top talent, you may want to ride this trend.

If you're interested in exploring the possibility of starting a Section 127 employer education assistance program, we can help you explore your options and answer any questions. If you decide to move forward, we can lead you through the process of creating your program and structuring it in a way that optimizes it as an employee recruitment and retention tool within the constraints of your budget.

---

**Disclaimer:** *The information in this business brief about helping employees with their student loan payments is provided for general informational purposes only and may not reflect current financial thinking or practices. No information contained in this business brief should be construed as financial advice from the staff at SWC (Stees, Walker & Company, LLP), nor is this the information contained in this business brief intended to be a substitute for financial counsel on any subject matter or intended to take the place of hiring a Certified Public Accountant in your jurisdiction. No reader of this business brief should act or refrain from acting on the basis of any information included in, or accessible through, this business brief without seeking the appropriate financial planning advice on the particular facts and circumstances at issue from a licensed financial professional in the recipient's state, country or other appropriate licensing jurisdiction.*