

Can a Qualified Educational Assistance Program Be Used to Repay Employees' Student Loans?

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QUESTION: Many of our company's employees have student loans. Could we help them repay those loans using a qualified educational assistance program?

ANSWER: Educational assistance programs under Code § 127 currently can be used to help employees repay certain student loans, but this benefit is only available for a limited time and certain restrictions apply. Here are some things to consider:

- *Expiration Date.* The loan repayment provision will expire at the end of 2025, unless Congress extends it.
- *Qualifying Loans.* Loan repayment benefits can be used to pay principal or interest (or both) on any qualified education loan incurred by an employee for the employee's education. For this purpose, the term "qualified education loan" has the same meaning as it has for the federal income tax deduction on education loan interest, which covers most loans for students who are enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential at an accredited post-secondary institution. For more information on which loans qualify, see [IRS Publication 970](#).
- *Method of Payment.* Employers may choose to pay the lender directly or reimburse the employee. Direct payments may offer greater assurance that the funds are being properly used. Employers offering reimbursements will want to adopt substantiation procedures that reasonably assure qualifying loan payments are made. For example, employers might rely on an employee's self-certification that any reimbursement request relates only to qualifying expenses.
- *Program Scope.* After 2025, Code § 127 will remain in effect, but it will only apply to payments for tuition, fees, books, certain other expenses, and education provided directly to employees—i.e., education provided "in-kind." Employers are generally free to impose limits on the benefits offered, so your company could decide to limit its program to loan repayments under the loan repayment provision (until it expires), or you could provide the other permitted benefits both before and after 2025.
- *Amount Limitation.* Student loan payment assistance will be combined with any other educational assistance when applying the \$5,250 aggregate annual limit on educational assistance benefits. Consequently, payments for any other types of educational assistance your company decides to offer will reduce the nontaxable amount available to your employees for student loan repayments. Any amounts paid that exceed \$5,250 in educational assistance benefits for a tax year should be included in an employee's wages.
- *Nondiscrimination.* If your company does not make the same benefits available to all employees, it will need to demonstrate that benefit eligibility does not discriminate in favor of highly compensated employees. In addition, no more than 5% of the benefits paid during a year can be provided to more-than-5% owners (or their spouses or dependents who are employees). If an educational assistance

program violates the nondiscrimination requirements, all participants lose favorable tax treatment for their benefits under the program—not just those in whose favor discrimination is prohibited.

- *Documentation.* Qualified educational assistance programs must be in writing, so unless your company already has a written qualified educational assistance program document, you will need to prepare and adopt one. If you have a program, you will need to amend it to add student loan repayment benefits unless the program already authorizes any type of educational assistance within the meaning of Code § 127.
- *Notification.* Eligible employees must be given reasonable notification of the program's availability and terms.

For more information, see EBIA's Fringe Benefits manual at Sections X.A ("Overview of Qualified Educational Assistance Programs") and X.C ("Types of Educational Assistance That Can Be Offered").

Contributing Editors: EBIA Staff.