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Tax-Free Employer Reimbursement of Student Loan Repayments

Updated August 2025

Background

Employers can provide employees up to $5,250 annually in tax-free education assistance through an educational assistance program (EAP) under IRC § 127. Historically, EAPs were limited to payments for an employee's educational expenses such as tuition, fees and textbooks.

What's Changed?

In 2020, the CARES Act expanded education assistance so that an EAP could also cover payment or reimbursement of employee's student loans. Unfortunately, this expansion occurred when many employers were looking for ways to cut expenses, and not in a position to expand benefits. In the Consolidated Appropriations Act of 2021, passed in December 2020, Congress extended through 2025 the ability to treat reimbursements of student loans as tax-free under IRC § 127.

The tax legislation signed into law July 4, 2025 expands educational assistance programs in two ways:

- **The expansion allowing tax-free reimbursement of student loans is made permanent.**
- **The $5,250 annual limit is increased for inflation each year after 2026.**

Potential Opportunities

- Some employers already offer taxable loan repayment assistance – for example, $100 per month up to $10,000 lifetime. These could be refashioned into a tax-free reimbursement.
- Employers without an existing EAP could adopt one that is tailored to loan repayment for certain targeted employees.
  - For example, some employers might want to make loan repayment part of a sign-on bonus, particularly when recruiting out of university programs.
- Employers with an existing EAP could expand their programs to add loan reimbursement.
  - Participants could be permitted to qualify for both tuition and loan reimbursement (subject to the $5,250 annual limit).

What's Involved in Administering a § 127 Plan?

Maintaining an EAP need not be complicated; but there are a few legal requirements. **See an overview on the next page.**

Contact us. We would be happy to hear from you. You may contact Spencer Walters, swalters@ipbtax.com, 202-662-3459, or Harrison Richards, hrichards@ipbtax.com, 202-662-3474, with questions.

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OVERVIEW OF LEGAL REQUIREMENTS FOR ADMINISTERING A § 127 EDUCATIONAL ASSISTANCE PLAN

Eligible Education Expenses	Tuition, fees, supplies, equipment and textbook expenses for any educational course taken by the employee, regardless of whether it is related to the employee's job. *Exclusions*: reimbursements cannot cover education involving sports, games, or hobbies, nor can they cover meals, lodging, transportation, or any tools or supplies the employee may retrain after completing a course.
Eligible Covered Loan Repayments (Now extended permanently beyond 2025)	Principal or interest on any qualified education loan —a loan taken solely to pay qualified higher education expenses—incurred by the employee for education of the employee.
Alternative Benefits	Cannot provide employees with a choice between educational assistance and other taxable compensation.
Maximum Tax-Free Benefit	$5,250 per year (combined between tuition and loan repayment expenses) *(2025 limit, subject to increase for inflation in future years)*
Eligibility	Permitted to cover employees and independent contractors. Cannot discriminate in favor of highly compensated employees or their dependents. New hires generally are non-HCEs for this purpose. Cannot pay out more than 5% of the total amounts paid during the year to significant shareholders.
Eligibility Conditions	Can impose reasonable conditions on reimbursements. It is not uncommon to require repayment if an employee terminates within a certain period after receiving reimbursement.
Disclosure	Must provide eligible employees reasonable notification of the availability and terms of the program.
ERISA	Does not apply (no ERISA reporting or disclosure obligations; no fiduciary responsibilities, although EAP must be for the exclusive benefit of employees to provide educational assistance).
Plan Document	Must have written plan document.
Funding	No trust or funding obligation, amounts can be paid from employer general assets.