

COMPLIANCE BULLETIN

CARES Act Allows 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.

Under this provision, employer payments toward their employees' qualified educational loans **between March 27, 2020, and Dec. 31, 2020**, may be excluded from the employees' taxable income, resulting in tax advantages for both parties. Employer contributions made outside of that 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 new CARES Act provision temporarily expands that law to include student-loan repayment assistance as qualified educational expenses. This means that employers may, for a limited time, 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 become familiar with the temporary change and 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.

Provided to you by **Sullivan Benefits**

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Highlights

Tax-free Employer Payments

The CARES Act temporarily adds qualified student loan payments as acceptable tax-free contributions to education-related employee benefits.

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 suspend interest accrual and repayment requirements for certain federal student loans through Sept. 30, 2020.

Important Dates

March 27, 2020

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

December 31, 2020

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

