

WHAT EMPLOYERS NEED TO KNOW

CARES Act Student Loan Benefit FAQ

How did the CARES Act change student loan benefits?

The CARES Act added employer contributions to student loans to Section 127 Education Benefits. This means that employer contributions towards employees' student loans are tax free.

What is Section 127?

Section 127 is the part of the IRC (Internal Revenue Code) that gives tax preference to educational benefits like tuition reimbursement.

How long will the tax free status last?

The stimulus bill gives this tax advantaged status from 3/27/20 through 12/31/20. BenefitEd is hopeful that it will become part of the annual extenders package and become tax free long term.

Which federal taxes does this include?

Section 127 exempts the contributions from income tax, as well as payroll taxes (social security & Medicare).

What about state and local taxes?

Section 127 exempts the contributions from both state and local taxes.

Is there a limit on how much an employer can contribute?

Section 127 allows up to \$5,250 in total education benefits for a calendar year. At some point this may be increased. This limit is amongst all education benefits offered by the employer.

Does this affect eligibility requirements for a student loan benefit?

Employers have the ability to customize the eligibility requirements of their student loan benefit program. There are restrictions against only offering it to the highest compensated employees or those who own more than 5% of the company.

Can employers deduct their contributions for tax purposes?

Yes, the contributions are fully tax deductible by the employer.

Can employees deduct these amounts for tax purposes?

If an employee contributes through payroll, these contributions are post tax. Individuals can deduct the interest they pay on student loans on their 1040 each year. Because they are receiving employer contributions tax free, they CANNOT deduct the interest paid by the employer.

Am I required to document my educational benefits program?

Yes, Section 127 requires you to document your plan in writing. BenefitEd assists their employer partners in developing program documentation.

