

# Compliance Alert!

## IRS Updates Guidance on Tuition Reimbursement and Student Loan Assistance Programs

The IRS recently released updated guidance and a revised sample plan document for Educational Assistance Programs under Section 127 of the Internal Revenue Code.

For employers already offering tuition reimbursement or student loan repayment benefits, now is a good time to review your program documents and administrative practices. For employers not currently offering these benefits, the updated guidance is another reminder that Educational Assistance Programs can be a valuable recruitment and retention tool, especially in a competitive labor market.

### What is an Educational Assistance Program and how does it work?

Under Section 127, employers may provide eligible employees with up to \$5,250 per year in tax-free educational assistance for 2025 and 2026. Beginning after 2026, the annual limit is expected to be adjusted periodically for inflation.

Educational assistance benefits may only be provided to employees, not spouses or dependents. The benefits are generally excluded from an employee's taxable income and are not treated as wages for federal income tax purposes. As a result, they are not generally reported as wages on Form W-2.

Payments may generally be made directly to the employee, the lender, or the educational institution. Eligible expenses include both undergraduate and graduate courses. Educational Assistance Programs may also include qualified student loan repayment assistance. Eligible expenses may include:

- Tuition
- Books
- Fees
- Supplies
- Equipment

The education does not need to be job-related.

### Is a written plan document required?

Yes. To qualify for favorable tax treatment, the employer must maintain a written Educational Assistance Program document. The IRS released an updated sample plan document that employers can use as a starting point when creating or updating a program. The revised sample reflects the changes made by the "One Big Beautiful Bill Act." To view the sample plan document, go to: [www.irs.gov/pub/irs-pdf/p5993.pdf](http://www.irs.gov/pub/irs-pdf/p5993.pdf)

### What does the sample plan document include?

The sample plan document addresses:

- Eligibility rules
- Definitions
- Reimbursement procedures
- Nondiscrimination requirements
- Administrative procedures
- Key plan definitions

The employer may customize the sample plan document to reflect waiting periods, part-time employee eligibility, reimbursement limits, and administrative rules and procedures.

### What are the key takeaways from the guidance IRS provided?

The guidance confirms that employers:

- Must inform employees about educational benefits
- May continue to provide student loan repayment assistance, including payments toward principal and interest on qualified education loans for an employee's own education. Payments may generally be made directly to the lender, educational institution, or employee.

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