



The CARES Act student loan repayment provision extension

Employers can now provide both tuition and student loan payments tax-free through January 1, 2026

Highlights:

- The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) student loan repayment provision, which allows employers to offer student loan repayment as a tax-free benefit up to \$5,250 per year, was set to expire at the end of 2020. It has now been extended.
- The provision will now expire on January 1, 2026, and many are advocating that it become permanent.
- In order for employers to provide student loan payments tax free, their student loan repayment program must comply with IRS section 127 eligibility and plan requirements.

What to consider if you are interested in taking advantage of the student loan repayment provision extension:

- The income tax exclusion applies only to payments made directly to an employee's student loans. It does not apply to other student loan benefit program designs, including those where an employer makes payments to a retirement plan (e.g., Fidelity's Student Debt: RetirementSM) or those that allow employees to trade current benefits to fund their student loan repayment (e.g., Fidelity Student Debt: Benefit ChoiceSM).
- The student loan repayment provision does not mandate employers adjust their current student debt repayment program configuration to comply with IRS section 127. You will want to consider the current objectives of your student debt repayment benefit to determine whether making changes to reduce your employees' taxable income is the best course of action.
- The income tax exclusion cannot be applied to parent PLUS loans payments.

CARES Act student loan repayment provision extension (section 2206 of CARES), and 26 U.S.C. 127 summary

In order for a student debt repayment benefit to meet the criteria for income tax exclusion, it must comply with the following. Please review in detail with your tax and legal counsel:

- [IRS Section 127](#) states that educational assistance provided by an employer may be excluded from an employee's gross income, up to \$5,250 per year. This limit applies to all IRS Section 127 educational assistance, including student debt payments, tuition reimbursement, and courses of instruction.
- The plan must not be discriminatory in favor of employees who are highly compensated (within the meaning of [IRS section 414\(q\)](#)) or their dependent.
- If principals and shareholders of a company are included in the benefit, then no more than 5% of the total benefit can go to that.
- The program must not provide eligible employees with a choice between educational assistance and other benefits or compensation that would be included in gross income.

If you decide to offer a tax-free student loan repayment program through Fidelity, here are next steps to consider:



- **Eligibility:** Ensure that your student debt repayment plan meets the nondiscrimination eligibility requirements outlined in IRS Section 26 U.S.C. 127.
- **Plan Document:** An IRS Section 127 program requires a separate written plan document that governs how educational assistance is provided to employees. Fidelity's plan description template can provide a good starting point to share with your legal counsel.
- **Payroll:** Adjust payroll to exclude benefit payments up to the \$5,250 limit as income, inclusive of student debt payments, tuition reimbursement, and course instruction.
 - Tracking across tuition reimbursement and student debt payment can be facilitated by leveraging Fidelity's payment history report (which records employer contributions made towards employee student debt).
 - Fidelity provides direct integration with preferred tuition reimbursement providers—more details coming soon. Contact the Fidelity Student Debt team to learn more.
- **Employee Communication:** Keep your employees informed about their student debt repayment benefit, whether or not you choose to make any changes

Fidelity may be able to help you with each of these next steps. Please contact your Fidelity Representative for questions or more information.

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