



# National Compliance Update

## USI EMPLOYEE BENEFITS

May 14, 2026

## Updated FAQs About Educational Assistance Programs

The Internal Revenue Service (“IRS”) released a fact sheet (FS-2026-10, April 2026), which provides updated answers to frequently asked questions (“FAQs”) related to employer educational assistance programs created under Section 127 (“§ 127”) of the Internal Revenue Code (“the Code”). Additionally, the IRS provided a modified sample plan document for an educational assistance benefit plan that employers can utilize when designing a program.

Notably changes in the FAQ include the following:

- **Mandatory Employer Disclosure Obligations.** The 2024 FAQs provided that an employer “can” tell employees whether there was a § 127 educational program available. The updated FAQs state that employers “must” notify eligible employees whether there is a § 127 program available and disclose the terms of any such program.
- **Student Loan Repayment Benefits Become Permanent.** The updated FAQs remove all references to the January 1, 2026, expiration date, as the inclusion of a qualified education loan as educational assistance benefits was made permanent under the One Big Beautiful Bill Act (“OBBBA”).
- **Annual Exclusion Limit Indexed for Inflation after 2026.** The updated FAQs provide that while the annual limit remains \$5,250 for 2025 and 2026, it will be adjusted for inflation beginning in 2027.
- **Benefits Must Be for the Exclusive Benefit of Employees.** The updated FAQs clarify that an educational assistance program must be for the “exclusive benefit of employees.” A program providing benefits to spouses or dependents is not a § 127 educational assistance program unless those spouses or dependents are themselves employees.
- **Expanded Focus on Officers, Shareholders, and Highly Compensated Employees.** The updated FAQs confirm that officers, shareholders, self-employed individuals, highly compensated employees and owners are eligible to receive educational assistance under a § 127 educational assistance program. However, the program may not discriminate in favor of highly compensated individuals or provide more than 5% of its benefits during the year to individuals who are more-than-5% shareholders or owners (or their spouses or dependents who are also employees of the employer).

Additional details follow.

This summary is intended to convey general information and is not an exhaustive analysis. This information is subject to change as guidance develops. USI does not provide legal or tax advice. For advice specific to your situation, please consult an attorney or other professional.

## BACKGROUND

Employees may exclude certain educational assistance benefits from gross income if they are provided under an employer sponsored § 127 educational assistance program. That means an employee will not have to pay income tax on the amount of benefits up to the total annual exclusion limit and the employer should not include the benefits in the calculation of wages, tips and other compensation shown in box 1 of the employee's W-2 form.<sup>1</sup>

Amounts paid under a § 127 educational assistance program are generally deductible by the employer as a business expense under § 162.

As part of the Coronavirus Aid, Relief and Economic Security Act of 2020 ("CARES Act"), § 127 was expanded to include student loan payments through 2025. However, the inclusion of student loans as a qualified benefit was made permanent by OBBBA.

The IRS previously released FS-2024-22, which provided answers to frequently asked questions about employer educational assistance programs ("2024 FAQs").<sup>2</sup> The updated FAQs address recent developments.

## UPDATED FAQs

### Q1. What is an educational assistance program?

---

An educational assistance program is a separate written plan of an employer for the exclusive benefit of its employees to provide employees with educational assistance.

To qualify, the plan must:

- Be **written**,
- Cannot discriminate in favor of officers, shareholders, self-employed or highly compensated employees in requirements relating to eligibility for benefits, and
- Satisfy certain other requirements.

Additionally, an employer must notify employees of the availability of a § 127 educational assistance program and the terms of any such program.

The IRS provides a sample plan document to assist employers in establishing a qualified educational assistance program under § 127. An employer may tailor its plan to include, for example, conditions for eligibility, when an employee's participation in the plan begins and prorated benefits for part-time employees.

For the sample plan document, visit <https://www.irs.gov/pub/irs-pdf/p5993.pdf>.

---

<sup>1</sup> However, it also means that an employee cannot use any of the tax-free education expenses as the basis for any other deduction or credit, including the lifetime learning credit. If any benefits are received under a program that does not comply with § 127 or if the benefits are over \$5,250, there may be tax implications unless another exclusion applies.

<sup>2</sup> Frequently asked questions about educational assistance programs (FS-2024-22, June 2024), <https://www.irs.gov/newsroom/frequently-asked-questions-about-educational-assistance-programs>.

## Q2. What are educational assistance benefits?

---

§ 127 benefits include payments for tuition, fees and similar expenses, books, supplies and equipment, and the payments may be for either undergraduate or graduate-level courses. The payments do not have to be for work-related courses.

§ 127 benefits also include principal or interest payments on qualified education loans incurred by the employee.<sup>3</sup> These payments must be made by the employer after March 27, 2020.

§ 127 benefits do not include payments for the following items:

- Meals, lodging or transportation.
- Tools or supplies (other than textbooks) that the employee can keep after completing the course of instruction (for example, educational assistance does not include payments for a computer or laptop that the employee keeps).
- Courses involving sports, games, or hobbies unless they:
  - Have a reasonable relationship to the business of the employer, or
  - Are required as part of a degree program.

An employer may choose to provide some or all of the educational assistance described above. The terms of the plan may limit the types of assistance provided to employees.

## Q3. What is the total amount that can be excluded from gross income under § 127 of the Code per year?

---

Under § 127, the total amount that can be excluded from gross income for payments of principal or interest on qualified education loans and other educational assistance combined is \$5,250 per calendar year (adjusted for increases in the cost of living for taxable years beginning after 2026) on a “use it or lose it” basis.<sup>4</sup>

## Q4. What is a qualified education loan?

---

A qualified education loan<sup>5</sup> is a loan for education at an eligible educational institution. Eligible educational institutions include any college, university, vocational school or other post-secondary educational institution.<sup>6</sup> The Department of Education determines whether an organization is an eligible education institution. A loan does not have to be issued or guaranteed under a Federal postsecondary education loan program to be a qualified education loan.

---

<sup>3</sup> As defined in § 221(d)(1) of the Code. A qualified education loan is generally the same as a qualified student loan. See Qualified Student Loan in Chapter 4 of Publication 970, Tax Benefits for Education.  
<https://www.irs.gov/pub/irspdf/p970.pdf>

<sup>4</sup> The annual limit applies to amounts paid and expenses incurred by the employee during a calendar year. If an employee seeks reimbursement for expenses incurred, the expenses must be paid by the employer in the same calendar year for which reimbursement is made by the employer, and the expenses must not have been incurred prior to employment. However, qualified education loans may be incurred by the employee in prior calendar years and prior to employment, and payments of principal and interest may be made by the employer in a subsequent year. Employers that operate non-calendar year plans for other benefits should be diligent to ensure that participants do not exceed the maximum annual reimbursement amount for a given calendar year.

<sup>5</sup> As defined in § 221(d)(1) of the Code.

<sup>6</sup> As defined in § 221(d)(2) and § 25A(f)(2) of the Code.

For purposes of §127, qualified education loans may be incurred by the employee prior to employment, and payments of principal and interest may be made by the employer in a subsequent year.

---

#### Q5. How can payments of qualified education loans be made?

---

Depending on how a particular employer has designed its §127 educational assistance program, an employer may provide payments of principal or interest on an employee's qualified education loans for the employee's own education directly to a third party such as an educational provider or loan servicer or make payments directly to the employee.<sup>7</sup>

---

#### Q6. Can student debt be reimbursed under a § 127 educational assistance program?

---

It can be reimbursed if the debt was incurred as a result of expenses that are permissible benefits under § 127 of the Code (such as tuition, books, equipment, qualified education loans, etc.). The employer may reimburse the employee for these expenses as educational assistance benefits, and the employee could then use those funds to help satisfy his or her debt. To be excluded from the employee's gross income, the employee must be prepared to substantiate the expenses to the employer.

---

#### Q7. Can a § 127 educational assistance program benefit spouses or dependents of the employee?

---

No. An educational assistance program must be provided for the exclusive benefit of employees and not for the education of a family member such as a spouse or dependent.

If a spouse or dependent is also an employee of the employer, they may be able to receive benefits under the program as an employee.<sup>8</sup>

---

#### Q8. Can officers, shareholders, self-employed individuals, highly compensated employees and owners receive educational assistance under a § 127 educational assistance program?

---

Yes. While there are no specific income limits for receiving educational assistance benefits, an educational assistance program must satisfy certain nondiscrimination requirements, including not being discriminatory in favor of employees who are officers, shareholders, self-employed or highly compensated employees.

While shareholders and owners may receive educational assistance, not more than 5 percent of the amounts paid or incurred by the employer for educational assistance during the year may be provided for the class of individuals who are shareholders or owners (or their spouses or

---

<sup>7</sup> Generally, the payment by an employer of principal or interest on any qualified education loan incurred by the employee for the education of the employee under § 127(c)(1)(B) is only available if an employer amends the terms of its plan to include the benefit. If the plan is currently written to provide generally for all benefits provided under § 127, then it is possible that the plan would not need to be amended to provide for the qualified education loan benefit under § 127(c)(1)(B).

<sup>8</sup> Special rules apply to spouses/dependents of owners and > 5% shareholders who are also employees, as rules prohibit discrimination in favor of these employees and limit the percentage of benefits available to those owners and shareholders (or their spouses or dependents who are also employees of the employer).

dependents), each of whom (on any day of the year) owns more than 5 percent of the stock or of the capital or profits interest in the employer.

#### Q9. Are there other exclusions from gross income for educational assistance?

---

There may be other exclusions under the tax code that can apply for educational assistance, including an exclusion for working condition fringe benefits and an educator expense deduction. Discussion of these exclusions is beyond the scope of this article.

#### **EMPLOYER NEXT STEPS**

Employers that have (or are considering) an education assistance program should review these IRS FAQs. Importantly:

- Any education assistance program should be a separate written plan to take advantage of the tax benefits.
- While the combined total amount of the exclusion is \$5,250 for 2026, the limit will be adjusted for inflation beginning in 2027.
- Only eligible expenses can be provided on a tax favored basis, which now includes principal and interest payments on qualified education loans for payments that are made after March 27, 2020.
- The program is provided for the exclusive benefit of the employee and does not include the employee's spouse or family members.
- Employers are now required to notify eligible employees when there is a § 127 program available and disclose the terms of any such program.

#### **RESOURCES**

- Updates to frequently asked questions about educational assistance programs (FS-2026-10, April 2026), <https://www.irs.gov/newsroom/updates-to-frequently-asked-questions-about-educational-assistance-programs>
- Guidance published in the Internal Revenue Bulletin on Reliance of FAQs, <https://www.irs.gov/newsroom/general-overview-of-taxpayer-reliance-on-guidance-published-in-the-internal-revenue-bulletin-and-faqs>

**USI** [usi.com/locations](https://www.usi.com/locations)

This summary is intended to convey general information and is not an exhaustive analysis. This information is subject to change as guidance develops. USI does not provide legal or tax advice. For advice specific to your situation, please consult an attorney or other professional.

These materials are produced by USI Insurance Services for educational purposes only. Certain information contained in these materials is considered proprietary information created by USI. Such information shall not be used in any way, directly or indirectly, detrimental to USI and/or their affiliates.

Neither USI nor any of its respective representatives or advisors has made or makes any representation or warranty, expressed or implied, as to the accuracy or completeness of these materials. Neither USI nor their respective representatives or advisors shall have any liability resulting from the use of these materials or any errors or omission therein. These materials provide general information for the use of our clients, potential clients, or that of our clients' legal and tax advisors.

IRS Circular 230 Disclosure: USI Insurance Services and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with USI of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

© 2026 USI Insurance Services. All Rights Reserved.