What is It?

- Section 127 of the Internal Revenue Code (IRC) allows employers to exclude from employees’ wages up to $5,250 per year for payment or reimbursement of tuition, fees, books, certain supplies, and equipment for job or non-job related undergraduate and graduate level education as part of a “qualified educational assistance program.” Hence, employees who receive this benefit can exclude up to $5,250 of those benefits from their taxable income.

- Section 127 also applies to employer-provided job and non-job related courses of instruction for employees, including the cost of books, certain supplies, and equipment.

- Employers that provide their employees with Section 127 educational assistance benefits can deduct these costs as a business expense in determining their income tax liability. Employers that provide this benefit must have a written qualified educational assistance program that applies exclusively to their employees (including retired, disabled or laid off employees). Also, the program must be offered on a nondiscriminatory basis that does not favor highly-compensated employees, and meet other IRS requirements.

- Employees cannot use the same educational expenses paid for or reimbursed through an employer-provided Section 127 educational assistance program as the basis for claiming other federal tax benefits. However, employees may be able to claim other federal tax benefits, such as the Lifetime Learning Credit, for tuition and fees in excess of the $5,250 Section 127 limit.

Background

- Section 127 was created as part of the Revenue Act of 1978 and established employer-provided educational assistance as excludable for any type of educational course, apart from those related to games, hobbies or sports, unless these activities are the business of the employer or are required as part of a degree program. Prior to 1978, only specific “job-related” education assistance was excluded from gross taxable income.

- Since its creation in 1978, the provision has expired and been extended several times. Section 127 was made permanent in the American Taxpayer Relief Tax Act of 2012.

Who Benefits?

- In academic year 2007-8, Section 127 enabled 913,000 U.S. workers to pursue higher education courses and degrees that develop and expand critical skills needed to compete in our growing global economy. For example, the top four majors among Section 127 recipients were business (28%), STEM – sciences, technology, engineering, and mathematics (17%), education (15%), and health (13%). Section 127 is an efficient, cost-effective vehicle for training and improving the U.S. workforce.

- Employers provide Section 127 educational assistance benefits because they recognize the value and reap the return on their investment in their employees' continued education and training. The average Section 127 benefits received in 2009 was $2,700, with graduate students receiving on average $3,701 and undergraduate students receiving $1,849.

- The average annual employment earnings of Section 127 recipients were $42,711 for the 2007-8 academic year.
Additional information

- Coalition to Preserve Employer Provided Education Assistance website: [http://www.cpepea.com/](http://www.cpepea.com/)

