



Employer-Provided Educational Assistance Benefits

Internal Revenue Code Section 127

What are Employer-Provided Educational Assistance Benefits?

Section 127 allows employers to offer their employees up to \$5,250 annually in tax-free educational assistance for undergraduate or graduate-level courses.

Tax-free educational assistance benefits include payments for tuition, fees and similar expenses, books, supplies, and equipment. The payments do not have to be for work-related courses.

Employers are not required to provide assistance under Section 127 to their employees. But if an employer chooses to do so, the benefit must be offered to all employees on a nondiscriminatory basis that does not favor highly compensated employees.

Employers that provide their employees with Section 127 benefits can deduct these costs as a business expense in determining their income tax liability. They must also have a written qualified educational assistance program that applies exclusively to their employees (including retired, disabled or laid off employees).

Employees cannot use the same educational expenses paid for or reimbursed through an employer-provided Section 127 program as the basis for claiming other federal tax benefits. However, employees may be able to claim other federal tax

benefits, such as the American Opportunity Tax Credit (AOTC), for tuition and fees in excess of the \$5,250 Section 127 limit.

Section 127 was permanently extended by the American Taxpayer Relief Tax Act of 2012, although the annual limit of \$5,250 has not been increased in almost 40 years.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act expanded Section 127 to cover up to \$5,250 in employer payments for student loan repayment assistance through 2020. The Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) Act extended the provision through the end of 2025.

Who Benefits?

In academic year 2011-2012, Section 127 enabled an estimated 850,000 U.S. workers (8 percent of all undergraduates and 20 percent of graduate students) to pursue higher education courses and degrees that develop and expand critical skills needed to compete in our growing global economy. In fact, the top three undergraduate majors among Section 127 recipients were health care (20 percent), business (19 percent), and STEM – sciences, technology, engineering, and mathematics (13 percent). Similarly, the top three graduate majors for Section 127 recipients were education (29 percent), business (22 percent), and health care fields (14 percent). Section 127 is thus an efficient, cost-effective vehicle for training and improving the U.S. workforce (NPSAS 2012).

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continued

[Additional Information](#)

Section 127 Coalition

<https://127coalition.com>

Lumina Foundation White Paper

“Talent Investments Pay Off: Cigna Realizes Return on Investment from Tuition Benefits”

<https://www.luminafoundation.org/files/resources/talent-investments-pay-off-cigna-full.pdf>

SHRM and NAICU 2010 Study

“Who Benefits from Section 127? – A Study of Employee Education Assistance Provided Under Section 127 of the Internal Revenue Code”

https://www.naicu.edu/doclib/20100729_Section_127_Study_-_2010.pdf

Congressional Research Service Report

“Tax Treatment of Employer Educational Assistance for the Benefit of Employees”

Order Code RS22911

https://digital.library.unt.edu/ark:/67531/metacrs10765/m1/1/high_res_d/RS22911_2008Jul03.pdf