

TAX REFORM AND HIGHER EDUCATION

WHAT STUDENTS, FAMILIES, AND INSTITUTIONS NEED TO KNOW

Talking Points: Section 127 Employer-Provided Education Assistance

Section 127 strengthens workforce competitiveness by supporting continuous education and skill development for employees.

- With the constant shifting demands of the labor market, employers are well positioned to channel resources toward valuable training and education opportunities. Education assistance benefits not only support workers in acquiring new skills and education throughout their careers but also enhance employers' strategic goals, including attracting and retaining workers.
- Enacted in 1978, Section 127 of the Internal Revenue Code permits employers to annually provide their employees up to \$5,250 tax-free to pay for or reimburse qualified educational costs, including tuition, fees, and course materials.
- Beginning with the CARES Act in 2020 and extended through 2025, Section 127 employer-provided education assistance can be used by employees to make payments for either education expenses or any qualified education loan.¹

While employer-provided assistance benefits employees, employers, and our broader society, it is in need of modernization, which includes:

1. Increasing the annual benefit amount, including automatic inflation adjustments, and expansion to cover employees' immediate family members.

- The Section 127 annual benefit amount should be significantly increased to address the needs of working students and include automatic inflation adjustments.
 - While \$5,250 adequately addressed the costs of pursuing a four-year degree nearly 40 years ago when the benefit limit was last set in 1986, inflation has significantly reduced its impact. The annual limit of \$5,250 in 1986 would equal more than \$15,000 in 2025.
- In the 118th Congress, there were three bipartisan bills referred to the House Ways and Means and Senate Finance committees that would have expanded and modernized Section 127: the Upskilling and Retraining Assistance Act (H.R. 6401) and its Senate companion (S. 3296) and the Upward Mobility Enhancement Act (H.R. 6402). Enacting these bills is crucial to updating Section 127 for current educational costs and workforce needs.
 - The Upskilling and Retraining Assistance bills would also expand the benefit to allow benefit amounts to cover education-related tools, technology, and other equipment.

¹ Public Law 116-260, Consolidated Appropriations Act, 2021, Division EE, Title I, Sec. 120, <https://www.congress.gov/116/plaws/publ260/PLAW-116publ260.pdf>.

- Congress should consider additional expansions to Section 127, such as allowing the benefit to be used by the immediate family members of employees.

2. Modernizing employer-provided educational assistance should include making student loan repayments permanent while enhancing awareness and utilization of these benefits.

- The CARES Act's expansion of Section 127 to include student loan repayment assistance provides employers the opportunity to support their employees in making student loan payments, broadening the way this benefit can support employees, employers, and the wider community.
- This expansion of Section 127 could potentially generate substantial private sector funds for student loan repayment through a new public-private partnership to assist students and recent graduates repaying student loans.
- In the 118th Congress, there were two bills that would make the student loan expansion piece permanent. Reps. Malliotakis and Peters introduced H.R. 9164 in the House and Sens. Warner and Thune sponsored companion legislation (S. 4778) in the Senate.
- In addition to making student loan repayment assistance permanent, enhancing awareness and simplifying access to these benefits are essential to improving utilization.
 - Awareness and usage of Section 127 for student loan repayment is too low. Among organizations offering student loan repayment, only 35 percent of employees take advantage of Section 127, and 41 percent of employees are unsure if their organization takes advantage of the benefits.²

² 2024 Talent Trends, Society for Human Resource Management, <https://www.shrm.org/content/dam/en/shrm/research/2024-talent-trends-research-overall-findings.pdf>.