



TAX ALERT:

Student loan payments paid by an employer may be deductible and tax-free to employee

For 2020 Only: Student Loans Can Be Paid With Pre-Tax Money

For 2020, employers can pay up to \$5,250 of an employee's student loans and it will be tax-free for the employee and a deduction for the employer.

Background. An employee's gross income doesn't include up to \$5,250 per year of employer payments, in cash or kind, made under an educational assistance program for the employee's education (but not the education of spouses or dependents). (Code Sec. 127)

New law. The CARES Act adds to the types of educational payments that are excluded from employee gross income "eligible student loan repayments" (below) made before Jan. 1, 2021. The payments are subject to the overall \$5,250 per employee limit for all educational payments. (Code Sec. 127(c)(1)(B), as amended by Act Sec. 2206(a))

Eligible student loan repayments are payments by the employer, whether paid to the employee or a lender, of principle or interest on any qualified higher education loan as defined in Code Sec. 221(d)(1) for the education of the employee (but not of a spouse or dependent). (Code Sec. 127(c)(1)(B), as amended by Act Sec. 2206(a))

To prevent a double benefit, student loan repayments for which the exclusion is allowable can't be deducted under Code Sec. 221 (which allows the deduction of student loan interest subject to a dollar limit and a phase-out above specified taxpayer income levels.) (Code Sec. 221(e)(1), as amended by Act Sec. 2206(b))

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