

## Insights

# IRS UPDATES FAQs ON SECTION 127 EDUCATIONAL ASSISTANCE PROGRAMS: WHAT EMPLOYERS NEED TO KNOW

Apr 23, 2026

The IRS recently released an updated set of frequently asked questions (FAQs) governing educational assistance programs under Section 127 of the Internal Revenue Code (FS-2026-10) (the “Revised FAQ”), superseding the prior version published in June 2024 (FS-2024-22) (the “Original FAQ”).

The revisions are not merely cosmetic, as they make amendments and clarifications pursuant to the One, Big, Beautiful Bill Act. Employers and employees who rely on Section 127 programs, whether for tuition assistance or student loan repayment benefits, should take note of these changes.

## The Annual Exclusion Limit Is Now Indexed for Inflation

The Original FAQ provided that an employee could exclude educational assistance benefits from gross income up to \$5,250 per calendar year. This \$5,250 annual limit was a fixed figure with no mechanism for adjustment.

The Revised FAQ now provides that, while the annual limit remains \$5,250 for 2025 and 2026, it will be adjusted for increases in the cost of living for taxable years beginning after 2026. Unused portions of this annual limit may not be rolled over into a subsequent year.

Benefits received exceeding this limit may not be excluded from gross income under Section 127. However, they may be eligible for exclusion under Sections 117 or 132, or, alternatively, deducted under Sections 162 or 212, if the respective section’s requirements are satisfied.

**Practical Impact:** Employers should review their plan documents and payroll systems to ensure they accommodate the adjusted annual cap, if desired, beginning in 2027.

## Student Loan Repayment Benefits

Under the Original FAQ, employer payments of principal or interest on qualified education loans were described as a temporary benefit with a legislative sunset on January 1, 2026. The Revised

FAQ removes all references to this expiration date, providing that tax-free educational assistance benefits now include principal or interest payments on certain qualified education loans incurred by the employee indefinitely.

The Revised FAQ also provides that qualified education loans may now be incurred by the employee prior to employment and payments of principal and interest on such loans may be made by the employer in a subsequent year

## **Employer Disclosure Obligations Strengthened**

The Revised FAQ introduces a meaningful change to an employer's disclosure obligations regarding these programs. Under Q1 of the Original FAQ, an employer "can" tell employees whether there is a Section 127 educational assistance program where they work.

The Revised FAQ upgrades this permissive standard to a mandatory one. Revised Q1 provides that an employer "must" tell employees whether there is a Section 127 educational assistance program where they work. Additionally, revised Q1 adds a requirement that employers must disclose the terms of the program, an obligation absent from the Original FAQ.

**Practical Impact:** Employers should ensure they have formal processes in place to communicate the existence and terms of their Section 127 plans to all eligible employees.

## **Spousal and Dependent Benefits**

The Original FAQ's Q6 addressed whether employer payments of qualified education loans for spouses and dependents could be excluded from gross income. The Revised FAQ has renumbered and broadened this question into a more comprehensive Q7, which now asks whether a Section 127 program can benefit spouses or dependents in any manner.

Revised Q7 directly answers this question with no, an educational assistance program must be for the "exclusive benefit of employees". A program providing benefits to spouses or dependents is not a qualifying Section 127 program unless those individuals are themselves employees. It further clarifies that spouses and dependents of certain shareholders and owners who are themselves employees may receive benefits, but those benefits are capped at 5% of the aggregate benefits provided under the program during the year.

## **Expanded Q8 on Eligibility for Officers, Shareholders, and Highly Compensated Employees**

The framing of the question addressing eligibility for owners and highly compensated employees has been broadened. Where the Original FAQ's Q8 asked specifically about "self-employed individuals, shareholders and owners," the Revised FAQ's Q8 adds officers and highly compensated employees to the inquiry. Revised Q8 asks whether "officers, shareholders, self-employed individuals, highly compensated employees and owners" can receive educational assistance, and

answers affirmatively, noting that the program must still satisfy the non-discrimination requirements of Section 127 and Treasury Regulation § 1.127-2 and that the 5% limitation described above with respect to spouses and dependents of certain shareholders and owners who are themselves employees also applies to these individuals.

Employers should review their existing Section 127 plan documents in light of the above-described changes. If you have questions about how the Revised FAQs impact your documentation or operations, please feel free to contact us.

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