

# IRS Issues Frequently Asked Questions Regarding Educational Assistance Programs



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The Internal Revenue Service (“IRS”) recently issued a series of Frequently Asked Questions (IRS “FAQs”) addressing Educational Assistance Programs under Section 127 of the Internal Revenue Code (the “Code”). The first set of IRS FAQs was issued in June of 2024, and the second set was recently published on April 20, 2026. These IRS FAQs help provide general information regarding educational assistance programs, contain certain clarifying information, and provide updates based on recent law (such as the One Big Beautiful Bill Act).

*What is an educational assistance program?* An employer may sponsor an educational assistance program for its employees. If the program complies with the requirements of Code Section 127, an employee may receive tax advantaged reimbursement for their eligible educational assistance expenses through the program.

*A written plan document is required.* To comply with the requirements of Code section 127, the employer must maintain a written plan document for its educational assistance program. The employer should tailor its written plan document to describe (for example) the program’s eligibility requirements, when participation begins and ends, the benefits provided, program exclusions, and the claims submission process. In its FAQs, the IRS provides a [sample \(https://www.irs.gov/pub/irs-pdf/p5993.pdf\)](https://www.irs.gov/pub/irs-pdf/p5993.pdf) educational assistance program plan document that employers can use as a starting point for drafting their program.

**Note:** The IRS FAQs also clarify that an employer *must* inform its employees if it offers an educational assistance program and advise them of the terms of the program. To meet this notice requirement, the employer could (for example) make its plan document available for review on its human resources website.

*What educational assistance benefits may be provided?* To receive reimbursement on a tax-advantaged basis, only “educational assistance benefits” may be provided under the educational assistance program. The Code defines “educational assistance” very broadly to include “any form of instruction or training that improves or develops the capabilities of an individual.” It is worth noting that the payments do not have to be for work-related courses. The IRS FAQs provide examples of “educational assistance benefits,” such as tuition, fees, books, supplies, and equipment.

The Code and IRS FAQs also describe the types of benefits that will *not* be considered qualified “educational assistance benefits” under an educational assistance program. These include:

- Meals, lodging, or transportation.
- Tools or supplies (other than textbooks) that an employee can keep after completing the course of instruction (for example, educational assistance does not include payments for a computer or laptop that the employee can keep).
- Courses involving sports, games or hobbies—unless they have a reasonable relationship to the business of the employer, or are required as part of a degree program.

*Qualified education loans may be reimbursed through an educational assistance program.* The IRS FAQs highlight that beginning March 27, 2020, an educational assistance program may also reimburse qualified education loans (principal and/or interest payments) on a tax-advantaged basis. In response to the COVID-19 pandemic, Congress had previously amended Code section 127 to temporarily allow qualified educational loans to be reimbursed on a tax-advantaged basis through an educational assistance program. This provision was originally slated to sunset on January 1, 2026. However, in 2025 legislation, this exclusion was extended permanently.

A qualified education loan is a loan for education at an “eligible educational institution” (e.g., college, university, vocational school, or other postsecondary educational institution). The IRS FAQs highlight that an employer may provide payments of principal or interest on an employee’s qualified education loan directly to a third party (e.g., an educational provider or loan servicer), or make payment directly to the employee.

**Note:** The IRS FAQs also provide helpful clarification that the qualified education loan may have been incurred by the employee *prior* to employment with the employer, and that payments of principal and interest may be made by the employer in a subsequent year. Previously, it was unclear whether an educational assistance program could reimburse preemployment loans.

*Limit on reimbursements.* Currently, the maximum amount that may be provided on a tax-advantaged basis through an Educational Assistance Program is \$5,250 per calendar year. This maximum limit includes amounts for both qualified education loans and other educational expenses combined. For example, if an employer pays \$2,000 of principal on a qualified education loan, only \$3,250 in additional educational assistance may be excluded from the employee’s income. The employee is not allowed to carry over any “unused” amounts of the \$5,250 annual limit to a subsequent year.

**Note:** The IRS FAQs reflect that the \$5,250 annual limit was amended by the One Big Beautiful Bill Act (the “Act”). Under the Act, this \$5,250 limit is indexed for inflation for taxable years beginning after 2026. This limit has been capped at \$5,250 since 1986. Employers should decide whether to increase their program limits. If the employer decides to adopt an increased limit, it should amend its qualified educational program document for this new limit, and communicate it to plan participants.

*When must the educational assistance benefit be incurred?* The Code does not require that an educational assistance expense be incurred at any particular time relative to when the employer makes reimbursement for that expense. In other words, the Code does not require that expenses for the course be paid in the same year that the employer provides reimbursement for that course. However, the 2024 IRS FAQs had stated that “expenses must be paid by the employee in the same calendar year for which reimbursement is made by the

employer.” The IRS updated its position on reimbursement timing in its 2026 IRS FAQs. In the 2026 IRS FAQs, the IRS updated its guidance on reimbursement timing to simply provide that educational assistance expenses (other than qualified education loans) must *not* have been “incurred prior to employment.”

**Note:** The revision found in the 2026 FAQs will allow employers to have more flexibility in designing their educational assistance programs. For example, an employer can sponsor a program where the employee must obtain a certain GPA to receive reimbursement for their course (e.g., an employee pays for their course in year one, and the employer reimburses the course in the subsequent year—once the employee has received their final grade).

*Spouses and dependents may not receive benefits under an educational assistance program.* The IRS rules provide that only “eligible employees” may participate in an educational assistance program (e.g., current employees, retirees, employees on a leave of absence, etc.). Further, the recent IRS FAQs confirm that an educational assistance program cannot provide benefits to the spouse or dependents of an employee.

*Conclusion.* The IRS FAQs provide a helpful refresher regarding the IRS rules governing educational assistance programs. Employers can look to this most recent round of guidance when designing and administering their programs. If you have any questions regarding this article, please contact us.

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