

SCHOOL LAW AND HIGHER EDUCATION

INFORMATION MEMO

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Expanded Benefits for Educational Assistance Under the One Big Beautiful Bill Act

On July 4, 2025, President Trump signed into law the legislation commonly referred to as the One Big Beautiful Bill Act (the “Act”). One of the provisions of the Act that positively impacts educational institutions and other employers addresses Internal Revenue Code (“IRC”) Section 127 Educational Assistance Plans (“127 Plans”), which has historically provided a tax benefit for employer-provided educational assistance and thus served as a valuable hiring and retention resource for employers.

The two positive impacts include that the Act now makes the tax exemption of these benefits permanent and allows the amount of assistance to increase with the rate of inflation.

Background on Section 127 Plans

Prior to the Act, IRC Section 127 provided an annual exclusion of \$5,250 for employer-provided educational assistance pursuant to a qualified educational assistance program. To qualify under IRC Section 127, an educational assistance program must among other things:

- Provide benefits exclusively to employees of the employer (including current and former employees);
- Provide only qualified educational assistance benefits;
- Be a separate written program established by the employer and disclosed to employees that does not allow employees a choice between educational assistance benefits and cash; and
- Not discriminate in favor of highly compensated employees.

The education that is provided under the qualified educational assistance program does not need to be work related, nor does it need to be part of a degree program. Educational assistance may include any form of instruction or training that improves or develops the capabilities of an individual and can cover a broad array of educational pursuits and most types of education-related expenses, including both undergraduate and graduate level courses.

Qualified educational assistance includes the cost of tuition, fees, books and similar payments. The cost of supplies and certain equipment can also qualify, but only if the employee cannot retain the supplies and equipment after a course is completed. The cost of meals, transportation, and lodging cannot qualify as educational assistance under IRC Section 127, even if the expenses are incurred by an employee in connection with attending a course of instruction.

Additionally, IRC Section 127 had been temporarily expanded under the “CARES Act” through Jan. 1, 2026, to allow employees to exclude from their taxable income, payments of principal or interest made by their employer on qualified education loans that employees incurred for their own education. Qualified education loans cover loans for tuition, fees and room and board expenses incurred by students who are enrolled at least half-time in a degree program at an accredited post-secondary institution. Loans that refinance a qualified education loan will themselves be considered qualified education loans. Employers can make excludable payments to the employee or directly to the lender. Loan payments must be aggregated with any other educational assistance received by the employee when applying the statutory annual maximum of \$5,250.

Changes to Section 127 Plans under the Act

The Act makes two significant changes to Section 127 Plans. The “CARES Act” expansion of IRC Section 127 is now permanent, allowing annual employer provided tax free amounts to be used for student loan repayment and tuition assistance. Additionally, pursuant to the Act the annual tax free benefit of \$5,250, which had been capped for decades, will be indexed annually for inflation beginning in 2026.

What Should Employers Do Now?

Employers should conduct a review of their existing Section 127 Plans and prepare any revisions necessary to address the benefits allowed under the Act. Alternatively, employers without a Section 127 Plan may also wish to consider putting such a plan in place. In either case, it may be helpful to remind employees of the benefits available under the Act with respect to Section 127 Plans.

Bond Schoeneck & King PLLC has helped many employers address their educational assistance plan needs. If you have any questions or concerns relating to Section 127 plans, please contact [Frank C. Mayer](#), chair of Bond’s tax law practice group, [Jane Sovern](#), member of Bond’s higher education practice group, [Sara Richmond](#), member of Bond’s school law practice group, or the attorney at the firm with whom you are regularly in contact.

