

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

EMPLOYER EDUCATIONAL ASSISTANCE

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**ADVANCING AMERICAN
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TOPLINE: The One Big Beautiful Bill (OB3) ensured that employers can continue providing up to \$5,250 in student loan assistance to employees per year without the employees incurring additional taxes. It also added an inflation adjustment for that amount, which also applies to other excludable employer educational assistance.

BACKGROUND: Individuals can exclude from taxable income certain amounts of educational assistance benefits received from their employer. Educational assistance may include tuition, fees, supplies and equipment, and (more recently) assistance with student loan repayments. The exclusion only applies to employers with written education assistance programs who follow restrictions that ensure that the plan doesn't favor highly compensated employees or major shareholders of the company.

The Revenue Act of 1978 [created](#) the exclusion as a temporary provision, but Congress kept extending it until 2012 when the exclusion became permanent law. But the maximum amount of the exclusion was not inflation-adjusted and [remained](#) at \$5,250 from 1987 through 2026. The Coronavirus Aid, Relief, and Economic Security ([CARES](#)) Act of 2020 temporarily expanded the exclusion to allow student loan assistance, and the [Consolidated Appropriations Act](#) of 2021 then extended that change through 2025.

What OB3 Did:

- [Extended](#) permanently the expiring TCJA exclusion that allows employers to provide student loan payment assistance to employees of up to \$5,250 before such amounts become taxable to employees (both income tax *and* payroll tax).
- [Added](#) an inflation adjustment to the \$5,250 exclusion amount that applies to all employer-provided educational assistance, beginning in 2027.

Why Tying the Exclusion to Employers Makes Sense

- Deductions or exclusions for educational expenses are justifiable insofar as the educational expenses act as a form of investment (in human capital).
 - Some educational expenses equip students to be better workers or better citizens, while others don't (or even work against such objectives).
- The employer educational assistance exclusion requires, in effect, an employer sponsor and so tends to be connected to valued human capital investments.

Where Can I Find the Changes? OB3 Section [70412](#); [26 U.S.C. § 127](#).

BOTTOMLINE: A lot of government support for higher education through grants, loans, and tax credits is haphazard and may support students that are simply having a good time and putting off the real world. But the employer educational assistance exclusion is made for students who make the most of their educational opportunities.

