



Tax Insights
from Compensation,
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Tax Services

IRS publishes guidance on educational assistance programs

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In brief

What happened?

The IRS on April 20 released updated frequently asked questions (FAQs) in Fact Sheet 2026-10 addressing educational assistance programs under Section 127. Under a qualifying educational assistance program, certain tuition benefits an employer provides to employees can be excluded from taxable income, up to a current cap of \$5,250 per year. These benefits up to the applicable threshold are not reported as wages on Form W-2, *Wage and Tax Statement*, and are not eligible for individual income tax deductions or credits.

Why is it relevant?

The One Big Beautiful Bill Act (Act) added cost of living adjustments to increase the maximum annual wage exclusion of \$5,250 for qualifying educational assistance programs, effective for tax years beginning after 2026. The Act also made permanent, for tax years beginning after 2025, the inclusion of qualified education loan repayments to be treated as a benefit counted toward the annual dollar cap in those qualifying programs.

The FAQs provide general information for employers on what constitutes a qualifying educational assistance program, the rules for providing tuition assistance and qualified education loans to employees, applicable nondiscrimination requirements, and related considerations. Although FAQs do not constitute precedential IRS guidance, taxpayers can reasonably and in good faith rely on them when evaluating and implementing tuition assistance policies, provided they are considered alongside the applicable law and regulations.

Actions to consider

Employer-provided tuition assistance has continued to rise in popularity. Structuring these benefits to fit within an available wage exclusion is important so they are nontaxable to employees. The Act's indexing of the wage exclusion amount for qualifying educational assistance programs beginning after 2026 could make these benefits even more attractive to both employers and employees. Employers should review their tuition assistance policies to assess compliance with current law and the changes made by the Act.

In detail

Under Section 61, gross income generally includes all income from whatever sources derived, including fringe benefits. In addition, for federal income and social security and Medicare (FICA) tax purposes, the term "wages" includes all remuneration an employee receives for services performed for an employer. This remuneration includes fringe benefits, such as tuition assistance.

Amounts paid or expenses incurred by an employer for an employee's educational assistance, however, are excluded from the employee's gross income if the assistance is provided through an educational assistance program as defined by Section 127(b). For this purpose, "educational assistance" is defined as (1) payment by the employer of expenses incurred by or on behalf of an employee for the education of an employee; and (2) the provision, by an employer, of courses of instruction for that employee.

To qualify as an educational assistance program under Section 127, the program must satisfy certain requirements:

- The program must have a separate, written plan that provides educational assistance benefits;
- The plan must be for the exclusive benefit of employees only (e.g., not spouses or dependents);
- The plan must not discriminate in favor of highly compensated employees, and no more than 5% of the amounts paid or incurred by the employer can be provided for the class of individuals who are shareholders or owners holding more than 5% of the stock or interest;
- The program cannot be a part of a cafeteria plan;
- Eligible staff members must receive reasonable notification of the program availability and terms;
- The plan must not reimburse tools or supplies (other than books) that can be kept after the course ends, or meals, lodging, or transportation;
- The plan must not reimburse coursework involving sports, games, or hobbies unless it involves the business of the employer or is required as a part of a degree program; and
- Employees receiving the assistance must be able to substantiate that it qualifies for exclusion under Section 127.

Accordingly, educational expenses paid or reimbursed by an employer on behalf of an employee are excluded from wages if they satisfy these requirements. Eligible expenses include (1) undergraduate and graduate courses; or (2) beginning March 27, 2020, principal or interest payments on certain qualified education loans incurred by the employee for the education of the employee. Qualified educational loan payments can be made either to the employee or directly to the third-party loan servicer.

Observation: Not all employee student loans will qualify as educational assistance that can be reimbursed up to the applicable threshold. Employers should review reimbursement requests and documentation provided to determine what portion, if any, can be excluded from the employee's wages under the plan.

This statutory exception to the definition of wages applies only up to a specified annual limit. The cap historically has been \$5,250 per year and remains at that amount for the 2025 and 2026 tax years. The Act modifies this threshold to include cost of living adjustments beginning January 1, 2027. The FAQs reiterate that any amounts paid above the threshold are taxable wages unless another exception applies, such as the qualified tuition reduction under Section 117(d) or a working condition fringe benefit under Section 132.

The FAQs also provide a formula for business owners that are the only employees in that business. In that case, the amount of educational assistance that the owner-employees can receive is determined as follows:

$$\begin{aligned} &[\text{Total amount of educational assistance provided to employees other than the owner/employees}] \\ &\times .05263158 = [\text{amount of educational assistance the owner-employees can receive}] \end{aligned}$$

The result should be rounded down to two decimal places and cannot exceed \$5,250, as adjusted for cost of living increases for tax years beginning after 2026.

Next steps

The wage exclusion for a qualifying educational assistance program has existed in some form since 1978, but the relatively low annual limit of \$5,250 has limited the practical value of the exclusion as tuition costs have risen. Beginning with tax years after 2026, cost of living adjustments could increase the amount employers can exclude from employees' wages, provided the program is properly structured and administered. Employers should review their fringe benefit offerings—particularly tuition assistance programs—to analyze whether they are designed and maintained to consider tax efficiency and overall effectiveness.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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