

TAX CODE SECTION 127: EXPAND OPTIONS FOR EMPLOYER-PROVIDED EDUCATION ASSISTANCE

The U.S. Congress should expand the long-standing tax benefit (Tax Code Section 127) created to allow employers to offer tax-free education assistance to their employees. Such an expansion of Section 127 would help employees broaden their education, increase their job skills, and repay student loans.

PROPOSAL

Section 127 of the Internal Revenue Code allows an employee to exclude from income up to \$5,250 per year in assistance provided by their employer for any type of educational course at the certificate, associate, undergraduate, and graduate levels. The Coalition to Preserve Employer Provided Education Assistance (Section 127 Coalition), which NAICU co-chairs with the Society for Human Resource Management, is a broad-based collection of nearly 100 groups representing business, labor, and education dedicated to preserving Section 127, increasing the annual benefit, and expanding its uses. It supports proposed legislation that would strengthen and expand Section 127 in two ways:

1. Allow employers to offer the benefit to employees for both educational expenses and student loan repayment.
2. Increase the annual benefit amount to \$11,500, indexed for inflation.

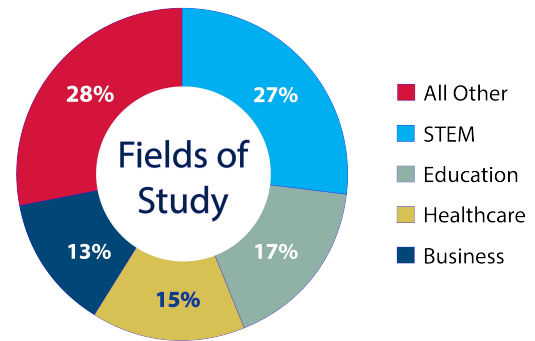
RATIONALE

Expanding Section 127 to provide greater and more flexible assistance to employees and employers would result in further access to postsecondary education, ranging from certificates to advanced graduate studies. Such an expansion would also allow employers to attract the best employees, and build an educated workforce to continue positioning the U.S. economy to compete globally.

Section 127 Beneficiaries

According to the most recent data available, more than 500,000 individuals took advantage of the benefit in 2015-2016, and the average annual employment earnings of those who used Section 127 benefits were \$59,512, just \$473 above the nation’s annual wage for full-time, year-round employees.ⁱ

The Section 127 benefit is also an important tool for helping employees with educational assistance. Nearly three-quarters (71 percent) of Section 127 beneficiaries are majoring in STEM, health, education, or business fields (see Figure).ⁱⁱ



Expanding Section 127 to allow employees to use the benefit for educational loan repayment could help hundreds of thousands of individuals. Seventy-one percent of all bachelor’s degree recipients in 2015-16 graduated with debt, as did 62 percent of master’s degree recipients, and 58 percent of doctoral degree recipients. Overall, 58 percent of student loans go to undergraduate students and 42 percent go to graduate and professional students.ⁱⁱⁱ

With the average cumulative debt for all bachelor’s degree recipients in 2017-18 at \$29,000,^{iv} expanding Section 127 would be a critical new tool in helping employees pay off student debt.

CURRENT LEGISLATION IN CONGRESS TO EXPAND SECTION 127

The Section 127 Coalition supports the following legislation to expand Section 127:

- H.R. 1043 by Reps. Peters (D-CA) and Davis (R-IL) and S.460 by Sens. Thune (R-SD) and Warner (D-VA) would allow employees to use the annual benefit for either education expenses or student loan repayment.
- H.R. 4849 by Reps. Davis (D-IL) and Smith (R-MO) would more than double the annual benefit amount to \$11,500 and index it for inflation.

SOURCES

- U.S. Department of Education, National Postsecondary Student Aid Study, NPSAS:16.
- Ibid
- The College Board, Trends in Student Aid, 2019.
- Ibid

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