



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

The Honorable David Scott  
U.S. House of Representatives  
Washington, DC 20515

Dear Representative Scott:

Thank you for your letter dated February 15, 2023. You asked about Section 127(c)(1)(B) of the Internal Revenue Code (Code) and how it applies to employer contributions to employees' student loans for certain educational programs and institutions.

Student loans for vocational programs, such as the ones you noted, would generally fall within the scope of Section 127(c)(1)(B). Nonetheless, I cannot give a categorical response with respect to employers paying for those loans. As noted below, each employer's qualified educational assistance program must satisfy particular requirements under the Code in order for employees to exclude that assistance from their wages. For additional information, please see IRS Publication 970, Tax Benefits for Education [<https://www.irs.gov/pub/irs-pdf/p970.pdf>], including Chapter 10, Employer-Provided Educational Assistance.

A qualified educational assistance program is a plan an employer establishes and maintains to provide educational assistance to employees. An employee can exclude from their gross income a maximum of \$5,250 of educational assistance they receive from their employer.<sup>1</sup> Educational assistance includes payments for tuition, fees and similar expenses, books, supplies, and equipment.<sup>2</sup> Education generally includes any form of instruction or training that improves or develops an individual's capabilities. The payments don't have to be for job-related courses or courses that are part of a degree program.<sup>3</sup> A qualified educational assistance program must be a written plan and have eligibility requirements that do not discriminate in favor of highly compensated employees.<sup>4</sup>

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<sup>1</sup> I.R.C. § 127(a)(2).

<sup>2</sup> I.R.C. § 127(c)(1)(A).

<sup>3</sup> Treas. Reg. § 1.127-2(c)(4).

<sup>4</sup> I.R.C. § 127(b)(1) and (2).

Section 2206 of the Coronavirus Aid, Relief, and Economic Security Act expands the type of educational assistance that an employee can exclude from their gross income. Under the law, an employee can now exclude certain student loan payments made by their employer after March 27, 2020. The exclusion applies to an employer's payment of principal or interest on any qualified education loan (as defined in Section 221(d)(1)) used by the employee for their education.<sup>5</sup> It doesn't matter whether the employer makes the payment to the employee or to a lender. Division EE, Section 120 of the Consolidated Appropriations Act, 2021 extended this exclusion to January 1, 2026.

As noted above, the definition of qualified education loan in Section 127(c)(1)(B) comes from Section 221(d)(1). Treasury Regulation Section 1.221-1(e)(3) defines qualified education loan to mean indebtedness incurred by a taxpayer to pay qualified higher education expenses. Treasury Regulation Section 1.221-1(e)(2) defines qualified higher education expenses to mean those paid at an eligible educational institution. Treasury Regulation Section 1.221-1(e)(1) defines eligible education institution as "any college, university, vocational school, or other postsecondary educational institution."

The Department of Education determines whether an educational institution is a vocational school. If it is, then Section 127(c)(1)(B) covers student loans at such an institution because the definition of an eligible education institution includes vocational schools. Whether Section 127(c)(1)(B) covers a student loan for a career training program depends on whether an eligible education institution offers the program.<sup>6</sup>

For purposes of Sections 127 and 221, it doesn't matter whether a school is a postsecondary institution as described in Title IV. That's because the definition of an eligible educational institution under Section 127 includes a vocational school, and an eligible education institution must offer a career training program for it to fall under Section 127(c)(1)(B). Likewise, it doesn't matter for purposes of Sections 127 and 221 whether a particular vocational program or career training program offered at an eligible education institution is itself eligible under Title IV.

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<sup>5</sup> I.R.C. § 127(c)(1)(B).

<sup>6</sup> Treas. Reg. § 1.221-1(e)(1).

I hope this information is helpful. If you have any questions, please contact me, or a member of your staff may contact Amy Klonsky, Chief, National Congressional Affairs Branch, at 202-317-6985.

Sincerely,

Daniel I. Werfel  
Commissioner