Student Loan Provisions in the CARES Act

The CARES Act includes a provision that, for the first time, allows for employers to make payments into their employees' student loan accounts on a tax-free basis up to $5,250 between now and December 31, 2020. This means that:

- The employee's taxable income is lowered by an amount determined by their tax bracket.
- The employer's tax liability is lowered, as they would not need to pay their 7.65% portion of the FICA tax for the amount contributed.

For example, if an employer contributes the full $5,250 allotted, then their taxable income would be lowered by $400. When that is multiplied that across an organization, employers can start to see meaningful tax savings.

Some employers have been wanting to make these types of contributions for a while now, so this adjustment may be just the thing to finalize that decision. For others, this could be a creative way to help an employee whose hours are being trimmed due to COVID-19.

Consider this scenario:

- An employee earns $25/hour, typically working 40 hours a week with a gross income of $1,000/week
- The employer plans to reduce their hours down to 20/week, resulting in lost weekly income of $500.
- The employer then decides to (temporarily) reduce the pay rate down to $20/hour and place $200/week into the employee's student loan.
- The employee now is only paying tax on $800 of income and has lowered their debt by $200. The employer also saves on their FICA tax obligation.

Of course, the numbers here can be altered to match any scenario, but it is certainly an interesting, new opportunity.

Whether you're looking to implement a recurring or one-time contribution, it's beneficial to use a third party. Otherwise, the administrative burden of manually setting up payments for each individual employee falls in your team's lap. FirstPerson has trusted partners in this arena and can arrange for the employer's only administration to be to set up a group portal.

A few key notes:

The $5,250 threshold is an existing number under Section 127 Educational Benefits. The section has simply been expanded to include student loans under its umbrella. This means that any benefit already in place (such as tuition reimbursement) is part of the equation to reach the maximum.

Employers DO have the ability to customize who receives the benefit and how much they get. The only restriction is the standard Highly Compensated Employees rule that already exists.

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