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CARES Act: Part 1 Tax-Free Student Loan Repayment Plans

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DID YOU KNOW?

On March 27, 2020 Congress passed [H. R. 748, \(CARES Act\)](#), and President Trump signed it, making it a new law. Called to be the “single-biggest economic relief package in American history,” the CARES Act amends the Internal Revenue Code (IRC) and is created to provide economic relief and stimulus to workers, families, and businesses of all sizes who are suffering from the effects of Coronavirus-19 (COVID-19).

The CARES Act encompasses many provisions including:

- Health and Welfare benefits expansions
- Retirement benefit expansions
- Unemployment Benefits expansion and tax credits
- Individual tax credits
- Social Security and payroll tax credits
- Small, Midsize, and Large Employers Business loans, including for non-profit and public entities
- **Tax Free Student Loan Repayment Plans**
- Further Limitations on Paid Leave

While guidance will be forthcoming on the applicability of the various components of the CARES Act by the IRS, the Small Business Administration (SBA), the Department of Treasury, and the Department of Labor, this HCM Alert is the first in a series about the CARES Act. This alert addresses the Tax-Free Student Loan Repayment Plans under this Act.

Student Loan Repayment Plans

Since 2016 employers have turned their attention to developing plans to assist their employees in paying down their student loan debt. [With debt continuing to rise](#), 44.7 million U. S. borrowers with \$1.56 trillion federal and \$1.24.54 billion in private student loans for an average of \$32,731.00 and student loan reimbursement plans have continued to be an advantageous program to offer for an employer’s ability to attract and retain employees.

Until the passage of the CARES Act, through an [Employers Education Assistance program](#), employers have been able to provide up to \$5,250.00 annually in non-taxable income to employees for:

- A. the payment, by an employer, of expenses incurred by or on behalf of an employee for education of the employee (including, but not limited to, tuition, fees, and similar payments, books, supplies, and equipment), and
- B. the provision, by an employer, of courses of instruction for such employee (including books, supplies, and equipment),

but not including payment for, or the provision of, tools or supplies which may be retained by the employee after completion of a course of instruction, or meals, lodging, or transportation. The term "educational assistance" also does not include any payment for, or the provision of any benefits with respect to, any course or other education involving sports, games, or hobbies.

The CARES Act expands the above provision of the IRC, allowing for the inclusion of employer provided payment assistance to its employees' qualified student loans as a non-taxable income to employees.

The total amount of non-taxable employee income for all employer provided Education Assistance is \$5,250.00. This provision for Student Loan Repayment plans is in effect for the period of March 27, 2020 (the day of enactment) until December 31, 2020.

As businesses continue to make decisions on where best to deploy their capital, consideration should also be given to the fact that the CARES Act also provides an automatic 6-month temporary pause in payments for students holding student loan debts. The CARES Act suspends payment of both principal and interest for federally held student loans through September 30, 2020. Likewise, interest will not accrue during this period. Not all federal student loans, including FFEL and Perkins loans, qualify and this forbearance provision does not apply to private student loans.

Furthermore, the CARES Act lifts the requirement of applying for a forbearance that had been communicated earlier in March. After announcing Coronavirus (COVID-19) a Public Health Crisis on March 13, President Trump announced that interest would be waived on federally held student loans and a [two-month forbearance](#) was initiated. This required borrowers to apply for protection. Being an automatic suspension under the CARES Act, this application process is no longer necessary for eligible student loans. It though a consideration that payments should continue to be made to the student loan that is in forbearance. Because interest will not accrue during this period, the payment will be applied to the principal amount owed, which will reduce the debt at faster rate.

Amidst the employment challenges presented by COVID-19, employers are continuing to evaluate decisions that will enable them to attract and retain quality employees. Having and communicating available resources that will support employees during this time of crisis will continue to keep an organization in the forefront as an Employer of Choice. For example, sharing with employees that CARES Act also means that garnishment of wages. Social Security and/or tax refunds and debt collection process is also in forbearance. Additionally, any non-payments during this forbearance period will be counted toward any payments due through a public service loan forgiveness program.

Employers that are looking to implement an Employer Paid Student loan repayment policy in consideration of the Student Loan Replacement provisions of the CARES Act, or wanting to be able to assist in guiding their employees through all available options, should seek out creditable providers to guide them and their employees. While the CARES Act provision offers a short-term solution to an existing challenge, employees and employers alike have been waiting for a similar solution and with anticipation await passage of the [Employer Participation in Repayment Act of 2019 \(H.R. 1043\)](#). Your trusted benefits advisor can provide you with access to vetted solutions to assist you in this process and keep you updated with the latest developments.



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With more than 20 years of Human Resource Generalist & Executive Level HCM Management experience, Kloss serves as the Director for the Human Capital Management Department for Benefit Advisors Network (BAN). With a deep understanding of the increasingly complex and diverse HR industry, Kloss provides her expertise to BAN's employee benefit brokerage members as well as their employer clients. She oversees all HR-related functions for the association, initiating pro-active, strategic compliance practices, which limits exposure in all areas of potential liability for BAN members and their clients.

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