Early Childhood Education Association of Colorado
The Voice for Child Care Providers & the Children They Educate

INSIDER'S EDGE | KEEP YOUR TEAM

The Raise Your Teachers Don't Pay Tax On

You can now pay down staff student loans tax-free, permanently. Here is how to use it to keep your best people.

Your teachers are getting "you're pre-qualified" refinance offers in their inboxes, and many are watching federal repayment options change. Student loan stress is real, and it walks out the door with good staff. Here is the good news: **you have a tool to help that most owners have never heard of, and it costs you less than a raise.**

Under Section 127 of the tax code, an employer can pay up to **$5,250 per employee per year** toward that employee's student loans or tuition. When it is set up correctly:

- **Your teacher pays no income tax on it.** It stays off her W-2, so every dollar you put in reaches her loan.
- **You deduct it as a business expense,** the same way you deduct wages.
- **It is permanent now.** Congress made student loan repayment a permanent part of Section 127 in 2025 and tied the yearly limit to inflation going forward. You can build it into your benefits without worrying it will vanish next year.

Why this beats a small raise

A $50 raise shows up smaller on the paycheck after taxes, and it disappears into the grocery bill. A $50 monthly payment toward a teacher's student loan arrives whole, lands somewhere she feels it, and comes with a message: we want you here long enough to pay this off. That is a retention story you can tell at interviews, too, and it is one the center down the street probably is not offering.

What it can look like at your program

You choose the amount and who qualifies. Start small; you can grow it later.

Who	What you pay	Tax-free to them
Lead teacher, after one year	$50 a month to her loan servicer	$600 a year
Assistant director	$150 a month	$1,800 a year
Teacher finishing ECE coursework	Tuition for two college classes	Up to the yearly limit

The same $5,250 limit also covers tuition, so it can pay for early childhood education (ECE) coursework that helps a teacher move up to lead or director qualification. Loan payments and tuition share one combined limit per employee each year.

How to set it up

1. **Put a written plan in place.** This is required. The IRS published a free sample plan, Publication 5993, that you can adapt with your CPA.
2. **Offer it fairly.** The plan cannot favor owners or your highest-paid staff. No more than 5% of the year's benefits can go to owners of 5% or more of the business (or their spouses and dependents). A simple rule like "all staff after one year of employment" keeps you on solid ground.

3. **Tell your team it exists.** Employees must be notified. Add it to your handbook and your job postings.
4. **Pay the servicer directly, or reimburse with proof.** Keep a statement or receipt on file for every payment. Your payroll provider or CPA can help you track it.
5. **Keep it separate from pay.** Staff cannot choose cash instead of the benefit; it has to be a true benefit, not a swap for wages.

Pair it with our staff handout

ECEA created a one-page sheet, **"Got a Student Loan Refinance Offer?"**, to help your teachers check what kind of loans they have before they refinance and lose federal protections. Hand it out with the announcement of your new benefit, and your team will see an employer who has their back on both fronts.

You don't have to figure this out alone.

Members can book time with Dawn to talk through whether this fits your budget and your team, and how to bring it to your CPA. Not a member yet? Join at **coloradoecea.org/join-now**. Membership is a business decision that pays for itself.

Together We Are Stronger

General information, not tax or legal advice. Confirm plan details with your CPA. Current as of November 2026.