

Key Higher Education Tax Provisions

Expiring December 31, 2013

Above-the-Line Deduction for Qualified Tuition and Related Expenses (IRC Sec. 222): The maximum deduction is \$4,000 for an individual earning up to \$65,000 (\$130,000 for a joint filer), phasing down to \$2,000 for those earning \$80,000 (\$160,000 for a joint filer). Qualified education expenses limited to required tuition and fees. Deduction unavailable if use American Opportunity Tax Credit or Lifetime Learning Credit. Cannot deduct qualified education expenses that have been paid with scholarship, grant (including Pell), assistance provided by an employer, or educational savings accounts (e.g. 529, Coverdell).

- **1.7 million claimed (2009)**
- **Two year extension retroactive to December 31, 2011**
- **Cost = \$1.7 billion over 10 years (Joint Committee on Taxation [JCT] January 2013).**

IRA Charitable Rollover (IRC Sec. 408): IRA Rollover permits IRA owners starting at age 70½ to make tax-free charitable gifts totaling up to \$100,000 per year from their IRAs directly to eligible charities, including colleges and universities. Extension to end of 2010 included in pending tax extender bill.

- **Two year extension retroactive to December 31, 2011**
- **Cost = \$1.3 billion over 10 years (JCT January 2013).**

Expiring December 31, 2017

American Opportunity Tax Credit (AOTC) (IRC Sec. 25A): The maximum tax credit is \$2,500 per eligible student for qualified education expenses for an individual earning up to \$80,000 (\$160,000 for joint filing), phasing down to \$1,875 for those earning \$90,000 (\$180,000 for joint filing). Qualified education expenses limited to required tuition, fees, and course materials. Tax credit is 40 percent refundable. Available only for the first four years of postsecondary education. Tax credit unavailable if using Lifetime Learning Credit or tuition deduction. Cannot apply tax credit to qualified education expenses that have been paid with scholarship, grant (including Pell), assistance provided by an employer, or educational savings accounts (e.g. 529, Coverdell). Without extension, AOTC reverts back to the Hope Scholarship tax credit benefit of \$1,800 with narrower eligible education expenses and shorter period of eligible use, lower income thresholds, and no refundability.

- **9 million claimed (2009)**
- **Cost = \$67.3 billion over 10 years (JCT January 2013).**

Permanent

Employer-provided Educational Assistance Benefits (IRC Sec. 127): An employee may receive up to \$5,250 in tax-free educational assistance per year from an employer for undergraduate or graduate-level courses. Tax-free educational assistance benefits include payments for tuition, fees and similar expenses, books, supplies, and equipment. The payments do not have to be for work-related courses.

- **1 million employees benefited (2007-2008 academic year)**
- **Cost = \$11.5 billion over 10 years (JCT January 2013).**

Student Loan Interest Deduction (SLID) (IRC Sec. 221): This deduction can reduce the amount of income subject to tax by up to \$2,500. The amount of student loan interest deduction for 2009 is gradually reduced (phased out) if income is between \$60,000 and \$75,000 (\$120,000 and \$150,000 for joint filing). Qualified education expenses are broadly defined to include tuition, fees, course materials, room and board, and other necessary expenses.

- **9 million claimed (2009)**
- **Cost = \$9.7 billion over 10 years (JCT January 2013).**

Coverdell Education Savings Accounts (ESA) (IRC Sec. 530): Individuals can contribute up to \$2,000 annually tax-free to pay for qualified education expenses of a designated beneficiary. Individuals remain eligible to contribute with income up to \$110,000 (\$220,000 for joint filing). Qualified education expenses are broadly defined to include tuition, fees, course materials, and room and board.

- **Score = \$271 Million over 10 years (JCT January 2013).**