

Education Tax Incentives (Overview)

American Opportunity Tax Credit (AOTC)

- May be elected during all four years of a taxpayer's, spouse's or dependent's college education.
- Tax credit of up to 100% of the first \$2,000 and 25% of the next \$2,000 of qualified tuition and related expenses paid in 2023 (maximum of \$2,500).
- Phased out as 2023 adjusted gross income exceeds \$80,000 for single taxpayers and \$160,000 for married couples filing jointly.
- Assuming certain conditions are met, 40% of the credit is refundable to lower income earners who pay little or no income tax.

Lifetime Learning Credit

- Equal to 20% of the first \$10,000 of qualified tuition and related fees paid for all eligible students in 2023 (maximum of \$2,000).
- Available for undergraduate, graduate-level and course work that improves job skills.
- Phased out as 2023 adjusted gross income exceeds \$80,000 for single taxpayers and \$160,000 for married couples filing jointly.
- Either the AOTC or Lifetime Learning Credit may be taken for the same student in any one year, but not both.

Qualified Tuition Programs (529 Plans)

- Contributions to a 529 plan are not deductible for federal income tax purposes, although some states allow residents to deduct contributions from state tax returns.
- Earnings grow tax-free for as long as the money remains in the plan.
- Distributions can be used to pay for qualified higher education expenses, such as tuition, fees, books, supplies, computers and computer technology.
- Up to \$10,000 may be distributed each year to pay expenses incurred by a designated beneficiary at a public, private or religious elementary or secondary school, as well as to cover the cost of apprenticeship programs.
- The 529 plan owner may withdraw up to \$10,000 tax-free for payments toward qualified education loans. This is a lifetime limit that applies to the 529 plan beneficiary and each of their siblings.
- Distributions from a 529 plan used to pay for qualified education expenses are entirely free from federal income tax.

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Education Savings Accounts

- Allow for contributions of up to \$2,000 per year per student for the benefit of a beneficiary who has not reached age 18.
- While contributions are non-deductible, earnings are not taxed and withdrawals are excluded from income, provided they are used for qualified education expenses. An American Opportunity Tax Credit or Lifetime Learning Credit can be claimed for the eligible student in the year of withdrawal if the withdrawal and the credit cover different eligible expenses.
- Single taxpayers with adjusted gross income of up to \$95,000 or married couples filing jointly with adjusted gross income up to \$190,000 may contribute up to \$2,000 per beneficiary per year to an Education Savings Account. The contribution amount is gradually reduced to zero for adjusted gross income levels between \$95,000 and \$110,000 for single taxpayers, and between \$190,000 and \$220,000 for married couples filing jointly.

Withdrawals from IRAs

- Amounts can be withdrawn penalty-tax-free from an IRA for higher education expenses of the taxpayer and the taxpayer's spouse, child and grandchild. Income tax, however, may be payable on all or a portion of the distribution.

Student Loan Interest Deduction

- A deduction for interest due and paid on qualified education loans is available.
- The deduction (\$2,500 in 2023) is made in arriving at adjusted gross income.
- Phased out as 2023 adjusted gross income exceeds \$75,000 for single taxpayers and \$155,000 for married couples filing jointly and is completely phased out for single taxpayers with adjusted gross income of \$90,000 or more and for married taxpayers with adjusted gross income of \$185,000 or more.
- Any student loan interest paid for with tax-free 529 plan earnings is not eligible for the student loan interest deduction.