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Higher Education Tax Benefits: Brief Overview and Budgetary Effects

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Higher Education Tax Benefits: Brief Overview and Budgetary Effects

The federal government provides financial assistance to individuals for higher education expenses in two major ways: tax benefits and traditional student aid (loans, grants, and work-study assistance). Since 1997, education tax benefits have become an increasingly important component of federal higher education policy. In 2023, 11 higher education-related tax benefits are available. The available tax benefits are a mixture of credits, deductions, exclusions, and other incentives. The Joint Committee on Taxation (JCT) estimates higher education-related tax benefits will cost an average of \$25 billion per year over the FY2020-FY2024 budgetary window.

This report provides a brief overview of the higher education tax benefits that are currently available to students and their families. These tax benefits can be divided into three groups:

1. incentives for current-year expenses,
2. incentives related to the preferential tax treatment of student loan expenses, and
3. incentives for saving for college.

In 2023, incentives for current expenses included the American Opportunity Tax Credit; the Lifetime Learning Credit; an exclusion for scholarships, fellowship income, and tuition reductions; and an exclusion for employer-provided education benefits. As a result of P.L. 115-97 (commonly referred to as the “Tax Cuts and Jobs Act”), the personal exemption (including for student dependents aged 19 to 23) and miscellaneous itemized deductions (including for unreimbursed work-related education expenses) are temporarily suspended from 2018 through the end of 2025. The above-the-line tuition and fees deduction, which had expired at the end of 2017, was temporarily extended for 2018, 2019, and 2020 as part of P.L. 116-94. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) temporarily expanded the definition of qualifying educational assistance for employer-provided education benefits to include student loan payments through the end of 2020. The tuition and fees deduction was permanently repealed in P.L. 116-260, while the income phaseout of the Lifetime Learning Credit was permanently expanded by the law. These two changes were effective beginning in 2021. The law also further extended the expanded definition of qualifying educational assistance first enacted in the CARES Act through the end of 2025.

Tax benefits for student loan expenses include a deduction for interest paid on student loans and an exclusion from income for the amount of discharged student loans. As a result of changes made in the American Rescue Plan Act (ARPA; P.L. 117-2), most forgiven student loan debt will be excluded from income and hence not taxable beginning in 2021. The exclusion is temporary and in effect through the end of 2025.

College saving tax incentives include Qualified Tuition Plans (529 plans); Coverdell education savings accounts (ESAs); an education savings bond program; withdrawals from individual retirement accounts (IRAs) to pay for college expenses without penalty; and the allowance of uniform transfers to minors. (Both Coverdells and 529s can also be used for certain K-12 education expenses, subject to limitations.)

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Introduction

Since 1997, education tax benefits have become an increasingly important component of federal higher education policy. For 2023, 11 higher education-related tax benefits are available. After 2025, absent legislative action, this number will effectively increase to 13. Two provisions that are temporarily suspended are scheduled to be reinstated—the personal exemption for dependents (including college-age dependents) and miscellaneous itemized deductions (including for unreimbursed work-related education expenses)—while the exclusion for discharged or forgiven student loan debt will only be available in limited circumstances.¹

The available tax benefits are a mixture of credits, deductions, exclusions, and other incentives. The benefits can be placed into one of three general categories: incentives for current year expenses, preferential tax treatment of student loans, and incentives for saving for college. The Joint Committee on Taxation (JCT) estimates currently available higher-education tax benefits will cost an average of \$25 billion per year over the FY2020-FY2024 budgetary window.²

This report provides a brief overview of the higher education tax benefits that are currently available to students and their families. The report contrasts higher education tax benefits with traditional student aid; presents a brief history of higher education tax policy over the past 60 years, including recent legislative proposals to modify these tax incentives; summarizes key features of the available tax benefits; and provides JCT estimates of revenue losses resulting from individual tax provisions. The summary is contained in **Table 1** and provides information on various aspects of each tax benefit including the type of benefit (credit, deduction, etc.), the annual dollar amount of the benefit, what expenses qualify for the benefit, what level of education the benefit can be claimed for, income levels at which the benefit phases out, and, if the provision is temporary, when it expires. **Table 2** contains estimates of the annual forgone federal revenue attributable to each provision.

Tax Benefits Versus Traditional Student Aid

The federal government provides individuals with financial assistance for higher education expenses in two ways: tax benefits and traditional student aid (loans, grants, and work-study assistance). To qualify for traditional financial aid, students generally first submit a Free Application for Federal Student Aid (FAFSA) to the Department of Education.³ Financial aid officers at the student's college or university use the asset and income information provided by the Department of Education to determine the student's federal financial aid award.⁴ This financial aid is then used to pay for higher education expenses at the time they are due.

¹ The Internal Revenue Code (IRC) and various Internal Revenue Service (IRS) guidance use the words *forgiveness* and *discharge* interchangeably, and so they are used interchangeably in this report. But for student loan policy purposes, the terms *discharge* and *forgiveness* are generally different. Forgiveness generally refers to the permanent elimination of a borrower's responsibility to repay all or a portion of their outstanding student loan debt, which is typically available following a borrower's completion of service or meeting other requirements. Discharge generally refers to the permanent elimination of a borrower's responsibility to repay all or a portion of their outstanding student loan debt, which is typically available based on a borrower's hardship (e.g., they have become totally and permanently disabled).

² See **Table 2** for more detailed information about the revenue losses associated with education tax benefits.

³ There are a myriad of smaller programs targeted at special populations for which the FAFSA is not required, including veterans' education benefits, State Department programs, Department of Defense (DOD) programs, and AmeriCorps.

⁴ This information can also be used to calculate any aid provided by the college or university to the student.

A summary of available traditional financial aid is beyond the scope of this report. For more information, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by Joselynn H. Fountain; CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by Alexandra Hegji; CRS Report R45418, *Federal Pell Grant Program of the Higher Education Act: Primer*, by Cassandra Dortch, and CRS Report R46720, *Student Loan Programs Authorized by the Public Health Service Act: An Overview*, by Elayne J. Heisler and Alexandra Hegji.

In contrast, most tax-based higher education assistance becomes available after higher education expenses have been incurred—sometimes several months afterward. Aside from tax-preferred college savings accounts, taxpayers must wait until they file their federal income tax returns to claim any federal higher education tax benefits. Another difference between the two forms of educational assistance is that traditional financial aid is often directed toward students with financial need, while tax benefits are generally available to eligible taxpayers regardless of need.

Brief Historical Perspective of Tax Benefits

Tax benefits for higher education were first introduced nearly 60 years ago. While most of these benefits were originally structured as deductions and exclusions, which reduce taxable income, they now include tax credits, which directly reduce tax liability.

Between 1954 and 1996, eight tax benefits for education were enacted:

1. an exclusion for scholarships, fellowships, and tuition reductions;
2. a parental exemption for students ages 19 to 23 who were enrolled in college;
3. a miscellaneous itemized deduction for ordinary and necessary business expenses, which has been interpreted by the Treasury Department to include unreimbursed work-related education expenses;
4. an exclusion for employer-provided education assistance;
5. an exclusion for the interest earned on educational savings bonds;
6. an exclusion of qualifying cancelled student loans from taxable income;
7. an unlimited gift tax exclusion for amounts paid by a donor directly to an educational institution for tuition payments on behalf of the donee; and
8. an exclusion of the earnings from qualified tuition programs (QTPs), also known as Section 529 Plans.

The deduction for student loan interest, which had existed since 1954, was eliminated with the passage of the Tax Reform Act of 1986 (TRA86, P.L. 99-514). TRA86 disallowed all forms of personal interest deductions other than for mortgage interest.

The Taxpayer Relief Act of 1997 (P.L. 105-34) enacted five new education tax benefits:

1. the Hope Tax Credit;
2. the Lifetime Learning Credit;
3. a reinstatement of the deduction for student loan interest, which was made an above-the-line deduction;⁵

⁵ Above-the-line deductions, unlike itemized deductions, are available to all tax filers. Taxpayers who claim the standard deduction cannot benefit from itemized deductions.

4. an exclusion for earnings accruing to education individual retirement accounts (later renamed Coverdell education savings accounts); and
5. a cancellation of the penalty for early withdrawals from individual retirement accounts (IRAs).

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) temporarily *modified* several education tax benefits, including the exclusion of scholarships, grants, and tuition reductions associated with certain scholarships;⁶ the student loan interest deduction;⁷ and Coverdells.⁸ These modifications were scheduled to expire at the end of 2010.

In addition, the law extended the exclusion for employer-provided educational assistance through the end of 2010.⁹ EGTRRA also enacted a new temporary above-the-line deduction for higher education expenses (often referred to as the “tuition and fees” deduction). The tuition and fees deduction was scheduled to expire at the end of 2005. (Several laws subsequently extended the deduction through the end of 2020.¹⁰)

The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) modified a variety of parameters of the Hope Credit, increasing the amount of the credit and expanding eligibility for the credit. Collectively, these modifications resulted in the Hope Credit being referred to as the American Opportunity Tax Credit (AOTC). The AOTC as enacted under ARRA was scheduled to be in effect only for 2009 and 2010.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the AOTC for two years (2011 and 2012). In addition, modifications to education tax benefits originally made by EGTRRA were also extended through the end of 2012 by this law, including modifications to the exclusion of scholarships, grants, and tuition reductions concerning specific scholarships; the student loan interest deduction; and Coverdells.

⁶ Students must generally pay taxes on any part of a scholarship, fellowship, or tuition reduction that can be attributed to teaching, research, or other services that have been performed, are being performed, or will be performed. EGTRRA included a temporary exception to this general rule for funding received from the National Health Service Corps Scholarships and F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program.

⁷ Prior to EGTRRA, the deduction could only be claimed by eligible taxpayers for the first 60 months of interest payments. In addition, the deduction phased out when income was \$40,000-\$50,000 (\$60,000-\$70,000 for married joint filers), adjusted for inflation. As a result of EGTRRA, up to \$2,500 of student loan interest could be deducted from gross income for the entire duration of repayment. The amount that could be deducted phased out for taxpayers with income between \$50,000 and \$65,000 (\$100,000 and \$130,000 for married joint filers), adjusted for inflation.

⁸ Prior to EGTRRA, the maximum contribution was \$500 per beneficiary per year; qualified expenses were limited to higher education expenses; the phaseout range for married taxpayers was \$150,000-\$160,000; contributions could only be made until the beneficiary was 18; the balance of the account had to be distributed when the beneficiary turned 30, for both special needs and non-special needs beneficiaries; a taxpayer could not claim an education credit if they also took a tax-free distribution from their Coverdell; and contributions to a Coverdell were subject to a 6% excise tax if contributions for the same beneficiary were made to a 529 plan. As a result of EGTRRA, the maximum contribution amount for a beneficiary was \$2,000 per year; qualified expenses included both elementary and secondary school expenses and higher education expenses; the phaseout range for married taxpayers was \$190,000-\$220,000 (which is double the phaseout range for unmarried taxpayers); age limitations were waived for special needs beneficiaries; beneficiaries who took tax-free distributions from Coverdells could also claim education tax credits (although expenses paid for with Coverdell funds cannot be used to claim the credits); and contributions could be made to both a 529 plan and a Coverdell for the same beneficiary without penalty.

⁹ EGTRRA also repealed a limitation to this exclusion that prevented its applicability to graduate education. This expansion of the exclusion to cover graduate school expenses was also extended through the end of 2010.

¹⁰ P.L. 109-432 extended the tuition and fees deduction for 2006 and 2007, while P.L. 110-343 extended the deduction for 2008 and 2009.

The law also extended the exclusion for employer-provided educational assistance for 2011 and 2012 and the tuition and fees deduction for 2010 and 2011.

The American Taxpayer Relief Act of 2012 (P.L. 112-240; ATRA) made the exclusion for employer-provided educational assistance permanent. The law also made several EGTRRA modifications to education tax benefits permanent. Finally, ATRA extended the AOTC for five more years, through the end of 2017, and extended the tuition and fees deduction for 2012 and 2013.

The Tax Increase Prevention Act of 2014 (P.L. 113-295) extended the tuition and fees deduction through the end of 2014.

The Protecting Americans from Tax Hikes (PATH) Act (Division Q of P.L. 114-113) extended the tuition and fees deduction for 2015 and 2016. In addition, the PATH Act made the AOTC permanent, effectively eliminating the Hope Credit. The PATH Act also expanded the exclusion of scholarship income to apply to amounts received under comprehensive student work-learning-service programs (as defined in Section 448(e) of the Higher Education Act of 1965, P.L. 89-329).

The law commonly referred to as the Tax Cuts and Jobs Act (TCJA; P.L. 115-97) modified four education tax benefits: 529 plans, the tax treatment of discharged student loan indebtedness, personal exemptions for college age-dependents, and the miscellaneous itemized deduction for unreimbursed work-related education expenses.¹¹ With respect to 529 plans, it *permanently* allowed up to \$10,000 to be withdrawn tax-free per beneficiary per year and be used for tuition expenses at public, private, and parochial schools. With respect to the exclusion of certain discharged student loan debt, the law temporarily expanded the categories of nontaxable discharged student loan debt to include certain student loan debt that is discharged on account of the death or total and permanent disability of the student. This change was originally in effect from 2018 through the end of 2025. However, as a result of changes included in the American Rescue Plan Act (ARPA; P.L. 117-2), virtually all student loan debt forgiven in 2021 through 2025 will not be taxable. The law also temporarily suspended personal exemptions and the miscellaneous itemized deductions. Hence, from 2018 to 2025, taxpayers cannot claim a personal exemption for their college-age dependents or the miscellaneous itemized deduction for unreimbursed work-related education expenses.¹² All else being equal, this change will increase the taxpayer's taxable income. However, the ultimate impact on the tax bill will depend on each taxpayer's particular circumstances.

¹¹ In addition to these direct changes, other changes in the law could *indirectly* impact the value of education tax benefits for certain taxpayers as well as their budgetary score. For example, the tax law temporarily lowered marginal tax rates. Since the value of a tax benefit like a deduction or exclusion—in terms of tax savings—is proportional to a taxpayer's marginal tax rate, the reduction of these rates will also reduce the tax savings from these benefits. It will also reduce the aggregate revenue loss from these provisions. In addition, insofar as the law lowers a taxpayer's income tax liability, the taxpayer may also receive a smaller Lifetime Learning Credit (LLC) because—as a nonrefundable credit—the final value cannot exceed income tax liability.

¹² The miscellaneous itemized deduction for unreimbursed work-related education expenses was, when it was in effect, available to employees for expenses that met the criteria for deductibility under Internal Revenue Code (IRC) §162 and Treasury Regulation §1.162-5, but only to the extent that the expenses, along with other miscellaneous deductions, exceeded 2% of the taxpayer's adjusted gross income (AGI), as required under IRC §67. While miscellaneous itemized deductions are suspended from 2018 through the end of 2025, self-employed individuals may still be able to deduct certain work-related education expenses. For more information, see Internal Revenue Service, *Publication 970 Tax Benefits for Education 2018*, Chapter 12, January 17, 2019, <https://www.irs.gov/forms-pubs/about-publication-970><https://www.irs.gov/forms-pubs/about-publication-970>.

The Bipartisan Budget Act of 2018 (BBA; P.L. 115-123) extended the tuition and fees deduction retroactively for 2017.

The Further Consolidated Appropriations Act, 2020 (P.L. 116-94) extended the tuition and fees deduction through the end of 2020. In addition, the law made two permanent changes to 529 that go into effect in 2019.¹³ First, the law allows up to \$10,000 to be withdrawn tax-free from a 529 account to repay the beneficiary's (and any of the beneficiary's siblings') qualifying student loans.¹⁴ This \$10,000 limit is an aggregate lifetime limit per borrower.¹⁵ Second, the law expands the definition of qualifying expenses for 529 plans to include fees, books, supplies, and equipment required for an apprenticeship program.¹⁶ Hence, beneficiaries can withdraw funds tax-free from their 529 plans and use them for qualified apprenticeship expenses.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) modified the exclusion for employer-provided educational assistance, temporarily expanding the definition of qualifying educational assistance to include student loan payments through the end of 2020.¹⁷

The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Division EE of the Consolidated Appropriations Act, 2021; P.L. 116-260) eliminated the tuition and fees deduction and permanently modified the Lifetime Learning Credit. Specifically, the law increased the statutory income level and the range over which the credit phased out from \$40,000-\$50,000 (\$80,000-\$100,000 for married joint filers) to \$80,000-\$90,000 (\$160,000-\$180,000 for married joint filers). Of note, the prior-law income range (i.e., \$40,000-\$50,000; \$80,000-\$100,000 for married joint filers) was annually adjusted for inflation. Hence, in 2020, the income range over which the credit phased out was \$59,000-\$69,000 (\$118,000-\$138,000 for married joint filers). The new income range is not annually adjusted for inflation. With this change, the phaseout ranges for the Lifetime Learning Credit and the AOTC are the same. These changes are effective beginning in 2021. The law also further extended the expanded definition of qualifying educational assistance that was first enacted in the CARES Act, through the end of 2025.

The American Rescue Plan Act (ARPA, P.L. 117-2) included a provision temporarily modifying the tax treatment of forgiven student loan debt. Specifically, the law excludes from gross income qualifying student loans that are forgiven, for almost any reason, between December 31, 2020, and January 1, 2026. Hence, these amounts of forgiven student loan debt will not be subject to

¹³ These changes were originally introduced as part of the SECURE Act. For more information, see CRS In Focus IF11174, *The SECURE Act and the Retirement Enhancement and Savings Act Tax Proposals (H.R. 1994 and S. 972)*, by Jane G. Gravelle.

¹⁴ Qualifying student loans as defined for the student loan interest deduction under IRC Section 221(d). Student loan interest that is paid for with a tax-free withdrawal from a 529 account is not eligible for the student loan interest deduction. Joint Committee on Taxation, *Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 1994, the "Setting Every Community up for Retirement Enhancement (SECURE) Act of 2019,"* April 1, 2019, JCX-13-19, p. 85.

¹⁵ As noted by the Joint Committee on Taxation (JCT), for purposes of this \$10,000 per individual lifetime limit, withdrawals for a sibling of the beneficiary "are applied to the sibling's lifetime limit and not the designated beneficiary's lifetime limit." Joint Committee on Taxation, *Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 1994, the "Setting Every Community up for Retirement Enhancement (SECURE) Act of 2019,"* April 1, 2019, JCX-13-19, pp. 84-85.

¹⁶ The apprenticeship program must be registered and certified with the Secretary of Labor under Section 1 of the National Apprenticeship Act (29 U.S.C. 50).

¹⁷ Under this provision, qualified student loan payments are subject to the overall cap of \$5,250 per employee per year. Payments made by the employer can go to the employee directly or to the lender. Payments can cover both the principal and interest of the qualified student loan. For more information, see CRS Report R46279, *The Coronavirus Aid, Relief, and Economic Security (CARES) Act—Tax Relief for Individuals and Businesses*, coordinated by Molly F. Sherlock.

taxation. This change effectively replaces the more limited exclusion enacted as part of P.L. 115-97. Qualifying student loans include all federal student loans, and certain private education and institutional loans.

Summary and Cost of Current Benefits

Table 1 summarizes the higher education tax benefits currently available to individuals. The benefits can be divided into three groups: incentives for current year higher education expenses, incentives that provide preferential tax treatment of student loan expenses, and incentives for saving for college. Generally, a taxpayer cannot claim more than one tax benefit for the same dollar of education expense.

The benefits available are structured as a tax credit, deduction, exemption, or exclusion. While these terms are sometimes used interchangeably, they are different. It is important to understand the distinctions among the types of incentives:

- **Tax credits** reduce the amount an individual owes in taxes directly, on a dollar-for-dollar basis. Credits are available to all qualified taxpayers, whether they itemize deductions or not. Credits can be nonrefundable or refundable. Nonrefundable credits cannot exceed taxes owed, and therefore can only reduce an individual’s tax liability to zero. Refundable credits can exceed taxes owed, meaning a taxpayer with no tax liability may receive all or part of the credit amount as a refund check. *Education tax credits include the Lifetime Learning Credit, which is nonrefundable, and the American Opportunity Tax Credit, which is refundable, although the maximum amount that can be received as a refund is limited to 40% of the total credit (\$1,000).*
- **Tax deductions** reduce the amount of a taxpayer’s income that is subject to taxation by the amount of the deduction. As a result, deductions reduce a taxpayer’s tax liability, but only in proportion to the taxpayer’s highest marginal tax bracket.¹⁸ Hence, deductions are generally less valuable than a given dollar amount in tax credits. Generally, the amount that may be deducted is equal to a portion of some expense incurred. Deductions can either be “above-the-line” or “itemized.” Above-the-line deductions are typically more advantageous than itemized deductions and may be claimed by most taxpayers. Itemized deductions may only be claimed by those taxpayers who itemize all their deductions on their tax returns. The alternative to itemizing is claiming the standard deduction. *Education tax deductions include the deduction for tuition and fees (repealed beginning in 2021), and the student loan interest deduction (both above-the-line deductions). Under P.L. 115-97, miscellaneous itemized deductions (including for unreimbursed work-related education expenses) are suspended from 2018 through 2025.*
- **Tax exemptions** reduce the amount of a taxpayer’s income that is subject to taxation, by a fixed dollar amount per exemption claimed. Generally, every taxpayer is allowed to claim one exemption for themselves, one exemption for a spouse, and one for each dependent. Exemptions function similarly to deductions in that they reduce the income that is subject to taxation, but they are based on a

¹⁸ For example, a \$4,000 deduction for someone whose highest marginal tax bracket is the 10% bracket will result in a \$400 reduction in that taxpayer’s tax bill. If the taxpayer’s highest marginal tax bracket is the 35% bracket, their tax bill will fall by \$1,400.

fixed amount per person instead of actual expenses. An exemption's value to a taxpayer is also similar to the value of a deduction in terms of being proportional to a taxpayer's highest marginal tax bracket. *Parents of students between the ages of 19 and 23 are eligible for a personal tax exemption for their children. Under P.L. 115-97, the personal exemption, including for students ages to 19 to 23, is suspended from 2018 through 2025.*

- **Tax exclusions** are amounts of income that are not included as income for tax purposes because the tax code explicitly excludes—or exempts—them from taxation. *Education tax exclusions include the exclusion of certain scholarships, grants, and tuition reductions, the exclusion of employer-provided educational assistance, the exclusion of qualifying cancelled student loan debt, and the exclusion of direct transfers to educational institutions.*

As **Table 1** shows, there are a number of limitations to the available tax benefits. Some benefits are subject to an annual limit, or “cap.” For example, the maximum annual American Opportunity Tax Credit that may be claimed is \$2,500. A number of the tax benefits may be limited by the type of “qualifying” expenses they are used to offset. For some tax benefits, only tuition and required fees qualify. Generally, fees that must be paid to the educational institution as a condition of enrollment or attendance are considered “required fees.” Other tax benefits can be used to offset course-related books, supplies, and materials. And still other benefits may be used to cover travel and other expenses.

A number of higher education tax benefits also have income limitations. When an income limitation does exist, it is in the form of an income phaseout range. Taxpayers with incomes below the start of the phaseout range are eligible to claim the maximum tax benefit amount. The amount of the credit that can be claimed is then reduced for individuals with incomes within the phaseout range, and is zero for those with incomes above the phaseout range. In addition, the expiration date for the provision, if temporary, is provided.

Table 2 presents the JCT cost estimates for each available tax benefit. The JCT advises that these estimates cannot be simply summed to estimate the aggregate revenue loss from multiple tax provisions. This effect is because of interactions. When the revenue loss associated with a specific tax provision is estimated, the estimate is made assuming that there are no changes in other provisions or in taxpayer behavior. When individual tax expenditures are summed, the interaction effects may lead to different revenue loss estimates. Consequently, aggregate tax expenditure estimates, derived from summing the estimated revenue effects of individual tax expenditure provisions, are unlikely to reflect the actual change in federal receipts associated with removing various tax provisions.

Table I. Overview of Education Tax Benefits, 2023

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
TAX BENEFITS FOR TUITION AND RELATED EXPENSES					
American Opportunity Tax Credit <i>IRC §25A</i> Tax credit partially refundable. 40% of credit may be refundable (up to \$1,000)	\$2,500 credit per student	(1) Tuition and required enrollment fees (2) Course-related books, supplies, and equipment	First 4 years of postsecondary education (Generally undergraduate)	\$80,000-\$90,000 \$160,000-\$180,000*	None
Lifetime Learning Credit <i>IRC §25A</i> Tax credit nonrefundable	\$2,000 credit per tax return	(1) Tuition and required enrollment fees	Undergraduate and graduate Courses to acquire or improve job skills	\$80,000-\$90,000 \$160,000-\$180,000*	None
<i>TEMPORARILY SUSPENDED 2018-2025. Pre-2018:</i>					
Miscellaneous Itemized Deduction for Unreimbursed Work-Related Education Expenses <i>IRC §67 & 162; Reg §1.162-5</i> Deduction (itemized) of qualified expenses from AGI	None	(1) Tuition and required enrollment fees (2) Transportation and travel (3) Other necessary expenses	Education must be required by employer or law to keep present job, salary, status or maintain or improve job skills	None	Under current law (P.L. 115-97), this provision will be in effect in 2026.

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
Exclusion of Scholarships, Grants, and Tuition Reductions IRC §117 Exclusion from taxable income if scholarship, grant is used to pay qualifying education expenses and does not represent payment for services (i.e., “work-based”). Work-based scholarships are generally taxable. There are three work-based scholarships that are not taxable. Specifically, the National Health Service Corps Scholarships, the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program, and amounts received under a comprehensive student work-learning-service program (as defined in Section 448(e) of the Higher Education Act of 1965, P.L. 89-329) operated by a work college are excludible from taxation.	None	(1) Tuition and required enrollment fees (2) Course-related books, supplies, and equipment	Undergraduate and graduate	None	None
Exclusion of Employer Provided Educational Assistance IRC §127 Exclusion from taxable income	\$5,250 exclusion	(1) Tuition and required enrollment fees (2) Course-related books, supplies, and equipment (3) Student loan payments (principal and interest) paid by an employer after March 27, 2020, and before January 1, 2026	Undergraduate and graduate	None	Expansion to include student loan payments expires at the end of 2025
<i>TEMPORARILY SUSPENDED 2018-2025. Pre-2018:</i>					
Parental Personal Exemption for Dependent Students 19-23 Years Old IRC §151 & 152 Exemption of fixed amount per dependent	\$4,050 per dependent in 2017 amounts adjusted annually for inflation	NA	Student must be under 24 by the end of the tax year and enrolled full time at a qualifying institution.	None	Under current law (P.L. 115-97), this provision will be in effect in 2026.

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
TAX BENEFITS FOR STUDENT LOANS					
Student Loan Interest Deduction IRC §221 Deduction (“above-the-line”) of interest paid	\$2,500	(1) Tuition and required enrollment fees (2) Course-related books, supplies, and equipment (3) Room and board (4) Other necessary expenses (including transportation)	Undergraduate and graduate	\$75,000-\$90,000 \$155,000-\$185,000* amounts adjusted annually for inflation	None
Exclusion of Qualifying Cancelled Student Loans Debt (Temporary expansion of nontaxable discharged student loan debt to include most forgiven student loan debt.) IRC §108(f) Exclusion from taxable income	None	(1) Tuition and required enrollment fees (2) Course-related books, supplies, and equipment (3) Room and board (4) Other necessary expenses (including transportation)	Undergraduate and graduate	None	Generally, none. Temporary expansion of nontaxable discharged student loan debt to include most forgiven student loan debt in effect from 2021 to 2025.

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
TAX BENEFITS FOR EDUCATION SAVINGS PLANS					
Qualified Tuition Programs (529 Plans) IRC §529 Earnings not taxed	No federal contribution limit (individual states may set limits.) K-12: \$10,000 per beneficiary per year withdrawal limit for qualifying K-12 expenses. Higher Education & Apprenticeships: No withdrawal limit if used for higher education or apprenticeship expenses. Student Loans: \$10,000 per borrower lifetime limit. Borrowers include the beneficiary and their siblings.	K-12: Tuition expenses at public, private, and parochial schools, subject to limit of \$10,000 per beneficiary per year. Higher Education: (1) Tuition and required enrollment fees (2) Books, supplies, and equipment (3) Expenses for special needs services (4) Room and board if at least half-time student Apprenticeships: Fees, books, supplies, and equipment required for an apprenticeship program. Student Loans: Student loan repayments—principal and/or interest, subject to a per borrower lifetime limit of \$10,000.	K-12 Undergraduate and graduate	None	None

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
Coverdell Education Savings Account IRC §530 Earnings not taxed	\$2,000 contribution per beneficiary	K-12: (1) Tuition and fees (2) Books, supplies, and equipment (3) Academic tutoring (4) Special needs services (5) Room and board (6) Uniforms (7) Transportation (8) Required supplementary items and services (9) The purchase of a computer if it is used by the beneficiary or their family. Higher Education: (1) Tuition and required enrollment Fees (2) Books, supplies, and equipment (3) Expenses for special needs services (4) Payments to QTP (5) Room and board if at least half-time student	K-12 Undergraduate and graduate	\$95,000-\$110,000 \$190,000-\$220,000* ^a	None
Exclusion of Interest on Education Savings Bonds IRC §135 Interest not taxed	Amount of qualified education expenses	(1) Tuition and required enrollment fees (2) Payments to Coverdell ESAs (3) Payments to QTPs	Undergraduate and graduate	\$91,850-\$106,850 \$137,800-\$167,800* amounts adjusted annually for inflation	None
Early Withdrawals from IRAs IRC §72(t) No 10% additional tax on early withdrawal	Amount of qualified education expenses	(1) Tuition and required enrollment fees (2) Books, supplies, and equipment (3) Expenses for special needs services (4) Room and board if at least half-time student	Undergraduate and graduate	None	None

	Annual Limit	Qualifying Expenses	Qualifying Education Level	Income Phaseout Range <i>*married joint</i>	Expiration
Uniform Transfers to Minors IRC §2503(e) Exclusion from income of direct transfer to educational institution	Unlimited	(1) Amounts paid directly to educational institution for tuition	Undergraduate and graduate	None	None

Sources: Internal Revenue Service, *Publication 970: Tax Benefits for Education: For Use in Preparing 2021 Returns* and Internal Revenue Service, *Revenue Procedure 22-38*.

Note: NA = not applicable.

- a. The income phaseouts for Coverdells apply to any individual who contributes to the Coverdell (including the beneficiary).

Table 2. Estimated Budgetary Impact of Tax Benefits for Higher Education Expenses, FY2020-FY2024

(billions of dollars)

Tax Benefit	2020	2021	2022	2023	2024	Total
Higher Education Tax Credits (AOTC and LLC) ^a	14.5	15.5	16.4	16.4	16.3	79.1
Exclusion of Scholarship and Fellowship Income	3.8	3.9	4.0	4.1	4.2	20.1
Deduction for Student Loan Interest	1.4	1.9	2.3	2.3	2.4	10.2
Exclusion of Employer-Provided Education Benefits ^b	1.6	2.1	1.8	2.0	2.0	9.5
Exclusion of Earnings of Qualified Tuition Programs (529 Plans)	1.3	1.1	1.3	1.7	2.1	7.3
Exclusion of Employer-Provided Tuition Reductions	0.3	0.3	0.3	0.3	0.3	1.7
Exclusion of Certain Discharged Student Loans ^c	0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of Earnings of Coverdell Education Savings	0.1	0.1	0.1	0.1	0.1	0.3
Deduction for Tuition and Fees ^d	0.3	0.1	—	—	—	0.3
Exclusion of Interest on Education Savings Bonds	-i-	-i-	-i-	-i-	-i-	-i-
Parental Personal Exemption for Students ages 19 to	—	—	—	—	—	—
Total	23.5	25.1	26.4	27.1	27.6	129.4

Source: Joint Committee on Taxation: JCX-11R-20, JCX-23-20, JCX-24-20, and JCX-14-21.

Notes: A positive estimate corresponds to a federal revenue cost. Items may not sum due to rounding. “-i-” indicates revenue losses for FY2020-FY2024 are less than \$50 million; “—” indicates no budgetary impact.

- a. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Division EE of the Consolidated Appropriations Act, 2021; P.L. 116-260) eliminated the tuition and fees deduction and permanently modified the Lifetime Learning Credit. These changes are estimated to reduce revenues by \$173 million in FY2021, \$860 million in FY2022, \$835 million in FY2023, and \$782 million in FY2024. These revenue loss estimates are included above.
- b. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) modified the exclusion for employer-provided educational assistance, temporarily expanding the definition of qualifying educational assistance to include student loan payments through the end of 2020. These changes are estimated to reduce revenues by \$215 million in FY2020 and \$245 million in FY2021. These revenue loss estimates are included above. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Division EE of the Consolidated Appropriations Act, 2021; P.L. 116-260) further extended the expanded definition of qualifying educational assistance that was first enacted in the CARES Act, through the end of 2025. These changes are estimated to reduce revenues by \$429 million in FY2021, \$640 million in FY2022, \$676 million in FY2023, \$712 million in FY2024, \$748 million in FY2025, and \$227 million in FY2026. The revenue loss estimates for FY2021-FY2024 are included above.
- c. The American Rescue Plan Act (ARPA, P.L. 117-2) included a provision temporarily modifying the tax treatment of discharged student loan debt. Specifically, the law excludes from gross income qualifying student loans that are discharged, for almost any reason, between December 31, 2020, and January 1, 2026. Hence, these amounts of forgiven student loan debt will not be subject to taxation. This provision effectively replaces the more limited exclusion enacted as part of P.L. 115-97. This change was estimated to reduce revenues by \$1 million in FY2020, \$8 million in FY2021, \$8 million in FY2022, \$9 million in FY2023, and \$9 million in FY2024. Due to rounding, these amounts do not change the revenue loss estimates provided above.
- d. The deduction for tuition and fees expired at the end of 2017. It was extended through the end of 2020 as part of P.L. 116-94, signed into law on December 20, 2019. It was permanently repealed beginning in 2021 as part of P.L. 116-260.
- e. P.L. 115-97 temporarily suspended the personal exemption from 2018 through the end of 2025.

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