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Chairman Wyden, Ranking Member Hatch, and members of the Committee, thank you for having me here today to talk about the role of the tax system in helping students and families finance higher education.

I. Introduction

The Federal government provides substantial resources to support postsecondary (e.g., college level) education. This support helps ensure that individuals acquire the knowledge and skills required to obtain good jobs and achieve secure economic outcomes. Higher education has clear financial benefits for individuals—on average, college graduates earn hundreds of thousands of dollars more over their lifetimes than do high school graduates—and the spillover of benefits a highly skilled and educated workforce also enhance the productivity and wages of other workers, helping the U.S. to prosper in an increasingly global economy.

Tax incentives are among the most important resources the federal government provides to students and families to help pay for postsecondary education. These incentives help defray current expenses, help families save for future expenses (e.g., saving to pay for college), reduce the burden from past expenses (e.g. the costs of paying off education loans), and also support institutions of higher education.

Together these incentives have helped numerous families afford college and reduced its cost. However, the current system of education tax benefits is complex, with numerous programs targeting the same goals. As a result, taxpayers are confronted with difficult decisions about which of several potential tax benefits to claim and how to make the best of their particular situation. Facing this complexity, many taxpayers fail to claim the maximum benefit when they are eligible for more than one program.[1] Interactions between tax benefits and grants, including Pell Grants, exacerbate this complexity. Streamlining education tax benefits and improving coordination between tax benefits and grants could simplify student aid use for millions of students and their families and help ensure that Americans have access to valuable postsecondary education.

Today, I would like to provide some background on the tax incentives that support college attendance. First, I would like to summarize the major existing tax programs that help students and families defray the costs of attending college. Next, I would like to talk briefly about several proposals from President Obama that will make it easier for families to pay for college. Finally, I would like to discuss briefly how financing postsecondary education has changed over time and the challenges this poses for students, their families and the government.

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[1] Turner (2012) finds that roughly one in four taxpayers (including those using paid preparers) fail to claim the maximum tax benefit when they are eligible for multiple tax benefits. (See "Why Don't Taxpayers Maximize their Tax-Based Student Aid? Salience and Inertia in Program Selection." *The B.E. Journal of Economic Analysis & Policy*: 2011, Vol. 11: Issue 1. The U.S. Government Accountability Office (GAO-12-560, *Improved Tax Information Could Help Families Pay for College*, June 2012) also finds evidence that taxpayers fail to maximize their education tax benefits, reporting that 14 percent of filers in 2009 failed to claim an education tax benefit when they appeared eligible.

II. Description of Current Tax Programs

There are 18 major tax benefits that support postsecondary education. They take the form of credits, deductions and income exclusions. In total, they offered more than $41 billion of support last year. This represented more than one-fifth of the total federal support for postsecondary education.[2]

Tax benefits for current postsecondary education expenses (see Table 2A for further details).

In 2009 the President proposed and Congress enacted expanded financial aid for students though the American Opportunity Tax Credit (AOTC). The AOTC is available for up to four tax years for students enrolled at least half-time who pursue a degree or credential. This credit provides up to $2,500 per student for tuition, fees, and course materials for each of the first four years of postsecondary education—a total of up to $10,000 in support for college.[3] In 2013, the maximum available AOTC covered about 80 percent of tuition and fees at the average two-year public institution, or about 30 percent of tuition and fees for an in-state student attending the average four-year public institution. About 11.5 million families benefit and save an average of more than $1,100 per year.

The AOTC replaced the less generous, Hope Tax Credit and is available through 2017. As an alternative to the AOTC, taxpayers may choose the Lifetime Learning Tax Credit (LLTC). The Lifetime Learning Credit is computed at a 20 percent rate on up to $10,000 of qualified expenses (a maximum $2,000 non-refundable tax credit per tax return), is available for an unlimited number of years of education, and does not require qualifying students to pursue a degree or credential for expenses to qualify.[4] Taxpayers may claim at most one education credit (AOTC or LLTC) per student per year. The credits are subject to income limits that are intended to target the tax reductions to lower and middle income families. Only education spending net of other tax-free education assistance, such as grants, scholarships or distributions from education savings accounts, qualifies for these tax credits.

Through the end of 2013, taxpayers could deduct tuition and fees from taxable income, as an alternative to taking the AOTC or the LLTC for a particular student. Like the credits, only spending in excess of other tax-free educational assistance could be deducted. Taxpayers did not need to itemize their deductions to claim this tuition deduction of up to $4,000 of education spending. Like the LLTC, the deduction was available for an unlimited number of years and did not require students to seek a degree or a credential.

Tax credits like the AOTC, especially if they are at least partially refundable, are an effective means to reduce the costs of educational attainment, particularly for lower-income and middle-class families who struggle to finance the costs of college. They can be used to reduce costs of attendance and provide a benefit that does not vary directly with the taxpayer's marginal tax rate.

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[2] The value of tax benefits for education in fiscal year 2013 is from Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015, Analytical Perspectives*, Table 14. Total federal direct spending for the 2012-13 school year includes $48B from federal grants, $103B from federal student loans and $1B from federal work study. See College Board, *Trends in Student Aid 2013*.

[3] The $2,500 maximum amount is not indexed for inflation.

[4] Hobby classes do not qualify for the LLTC.

Other Tax-Related Education Benefits

In addition to these direct credits and deductions associated with tuition expenses, the Tax Code also provides several other benefits for families and students. Child-related tax benefits, including the dependent exemption and being a "qualifying child" for purposes of the Earned Income Tax Credit (EITC), are available for full-time students up to age 23. For non-students, eligibility for the dependent exemption and the EITC ends at age 18.

Taxpayers may exclude the value of scholarships, grants, tuition reductions, and employer-provided educational assistance from income, if the funds are used for qualifying tuition and related expenses. These grants include the federal Pell Grant. In addition, while payments for teaching, research or other services are generally taxable, recipients of National Health Service Corp (NHCS) scholarships and Armed Forces Health Professions Scholarships are excludable from income, even though recipients incur a work requirement. Up to $5,250 of undergraduate and graduate tuition, fees and related expenses provided by an employer may be excluded from income.[5] Tuition reductions provided to employees of institutions of higher education and their spouses are also excludable from income. In addition, gifts in the form of direct payments of tuition are not subject to gift tax.

<u>Tax benefits for education savings (Table 2B provides further details)</u>.

The tax code subsidizes education savings in several ways. Earnings in qualified tuition programs (so called "529 plans" allowed by Internal Revenue Code section 529) and Coverdell education savings accounts ("530 plans" allowed by section 530) are not taxed when they are used for qualified education expenses. Generally, 529 plans can be used for undergraduate and graduate expenses,[6] while Coverdell accounts may be used for these expenses as well as certain expenses at the K-12 level. Distributions of earnings that are not used for qualifying expenses are generally subject to income tax and a 10 percent penalty. Contributions are allowed generous gift tax treatment; taxpayers can elect to have contributions in one year treated as if they were made over five years, effectively increasing the annual exclusion amount. Most 529 plans are administered by states and states establish the maximum allowed account balances. In recent years, plan maximums ranged from $225,000 to $370,000. A given beneficiary, moreover, can have plans in multiple states. So, for practical purposes, there are no federal caps on annual contributions to or balances in 529 plans. In contrast, contributions to 530 plans are capped at $2,000 per year per beneficiary across plans and contributions to these plans are subject to income limits.

[5] Employer spending on education that is primarily for the benefit of the employer is not a tax expenditure and is fully excludable from employee income. Allowing a limited exclusion for employer-provided education for any purpose eliminates the need for employers to distinguish between expenses that are for the benefit of the employer and those that benefit primarily the employee, when the expenses are below $5,250. Thus, it simplifies administration of the tax code as well as potentially encouraging education spending.

[6] There are two types of 529 plans: pre-paid tuition plans and college savings plans. Pre-paid tuition plans allow college savers to purchase units or credits at participating colleges and universities for future tuition and, in some cases, room and board. College savings plans permit a college saver (the "account holder") to establish an account for a student (the "beneficiary") for the purpose of paying the beneficiary's eligible college expenses.

Besides education savings accounts, the tax code provides additional incentives for education savings. Taxpayers may take early distributions from IRA accounts without penalty if the distributions are used for education expenses.[7] Interest on certain savings bonds that are used for education expenses is not taxable.

Tax benefits for prior education expenses (see Table 2C for details).

Beyond providing tax relief for current and future education expenses, the tax code also provides tax benefits for prior education expenses. Taxpayers who meet income limits may deduct up to $2,500 of qualified student loan interest paid. In addition, the discharge of certain forms of student debt is excluded from income subject to tax. For example, students who participate in the National Health Service Corps Repayment program, the Public Service Loan Forgiveness Program, certain state loan repayment programs, and certain profession-based loan programs may exclude discharged debt from gross income.

Tax benefits for education institutions (Table 2D provides further details).

The Tax Code provides important benefits for education institutions. Charitable contributions by individuals may be deducted from income (by taxpayers who itemize their deductions) and charitable contributions received by institutions are not taxable. In addition, the investment income of college and university endowments is not subject to income tax or the excise tax on private foundation net investment income. Education institutions may benefit from tax-preferred financing. Bonds that qualify for tax-free interest include private activity bonds, student loan bonds and school construction bonds. The tax code also provides tax credits for investors who hold zone academy bonds. These bonds are typically used to finance operation of primary and secondary schools in low-income areas.

The Administration's Proposals

Permanently Extend the American Opportunity Tax Credit

The AOTC is scheduled to expire in 2017 when it will be replaced by the Hope tax credit. The Hope credit is less generous and less well targeted than the AOTC in three important ways. First, the Hope credit has a maximum value of $1,800 per year, in contrast to the AOTC's maximum value of $2,500. Second, the Hope credit is only available for two years, while the AOTC is available for four years. Third, the Hope credit is not refundable, while the AOTC is refundable, up to $1,000. Thus, the AOTC substantially increases the benefits available to lower-income families who are most in need of assistance, and because the AOTC is available for four-years, it may better encourage persistence. The Administration proposes to permanently extend the AOTC in order to help make college affordable for millions of families.

Beyond the proposal to permanently extend the AOTC, the Administration provides several other proposals to enhance and improve education-related tax policy.

[7] In general, early distributions from IRA accounts are subject to a 10% penalty.

Improve coordination between Pell Grants and the American Opportunity Tax Credit.

Pell Grants are the largest federal grant program that supports post-secondary education. In 2013-2014, Pell Grants provided $32 billion in grants to nearly 9 million students. Pell Grant recipients generally come from lower-income families. In 2011-2012, 74 percent of Pell Grant families had family income less than $30,000.

The AOTC is the largest tax incentive for higher education and is intended to significantly benefit students from low- and middle-income families. While each program alone increases the likelihood of a low-income student being able to achieve a postsecondary education, the current rules guiding these programs often exclude the neediest students from benefitting fully from both programs. Low-income students are the most likely to be dependent on financial aid in order to enroll in postsecondary schools and yet, under current rules, being eligible for a Pell Grant may reduce eligibility for the AOTC. In addition, current tax rules make it very difficult for students and their families to compute the maximum benefit to which they are legally entitled from the combined effect of both programs. As a result, families fail to claim hundreds of millions of dollars of available tax benefits each year. Better coordination between the two programs would seem to improve the prospects for the success of each.

A recent report by the Department of the Treasury discusses how we might achieve better coordination between the Pell Grant program and the AOTC. As suggested in the report, better coordination could include simplifying the process of applying for federal financial aid so that only information that can be found on a federal income tax form would be used to apply for Pell Grants. Better coordination could also include making more information on a student's eligibility for the AOTC available to students during the time that they apply for financial aid. The report also suggests ways to improve information reporting by schools to ease the compliance burden of students. Finally, the report suggests excluding Pell Grants from taxable income (even when used for living expenses) so that receiving a Pell Grant would no longer make some students ineligible for an AOTC.

Informed by this report, the Administration has moved on several fronts to improve coordination between the AOTC and Pell Grant programs to help make benefits more available to low- and moderate-income families.

On one front, the Administration has begun an outreach program to help inform taxpayers, tax preparers, and other interested advocates about existing rules regarding the interaction of Pell Grants and the AOTC, and about how to properly calculate a student's maximum benefit from the combined effects of these programs. The core of the issue is that the student and her family must allocate the Pell Grant between tuition, on one hand, and room and board, on the other, in a way that minimizes taxes overall, taking account of the AOTC. The problem arises because the amount of a Pell Grant that is used to pay tuition is not included in taxable income, but reduces the AOTC, while the amount of the Pell Grant that is spent on room and board is included in the student's taxable income, but does not reduce the AOTC. This calculation is complicated. Furthermore, even the basic fact that Pell Grants can legally be allocated for tax purposes between tuition and room and board, at the discretion of the student and independently of how the school allocated the Pell Grant, is not widely understood. This issue is discussed at some length in a recent Treasury fact sheet, which I have included as an addendum to my testimony.

Clarifying current law, and helping inform students, parents, taxpayers, colleges and universities, tax preparers, tax software providers, and other stakeholders how to calculate the maximum tax benefits allowed can help ensure that taxpayers get the benefits to which they are entitled. A better solution, however, would be to modify the tax law to remove these complicated interactions. In the President's FY 2015 Budget, there is such a proposal. Under the proposal, Pell Grants would be excludable from gross income without regard to which expenses they are applied, so long as the proceeds are spent in accordance with the Pell Grant program. For purposes of the AOTC and LLTC, taxpayers would be able to treat the entire amount of the Pell Grant as used to pay expenses other than qualified tuition and related expenses, such as room and board. The treatment of other scholarships would not be changed.

We estimate that over a million families would receive an average tax cut of $950 in 2015 if this proposal were enacted, and millions more would benefit from simplification of the rules. In many cases, these families are already entitled to tax benefits under current law but are failing to claim the AOTC or to claim the full amount owed due to the complexity.

Modify Reporting of Tuition Expenses and Scholarships on Form 1098-T

Form 1098-T is used to verify education spending for education-related tax benefits. Eligible institutions of higher education are required to file each year an information return (Form 1098-T) for each enrolled student for whom a reportable transaction is made.[8] Currently, Form 1098-T may not provide all the information that taxpayers need to claim an education tax credit or to properly report taxable scholarship income. Among institutions that file Form 1098-T, many report tuition amounts billed. However only amounts paid in a given tax year qualify for a tax credit in that tax year. (Amounts billed will not qualify for the credits if the amount was paid in a different tax year.) Scholarships that are paid directly to students rather than administered by schools are not reported on Form 1098-T either to students or to the IRS.

In its FY 2015 Budget, the Administration proposes to modify Form1098-T reporting so that institutions of higher education must report amounts of tuition paid. In addition, the proposal would require that any entity issuing a scholarship or grant in excess of $500 that is not processed or administered by an institution of higher education report the scholarship or grant on Form 1098-T. The threshold amount is indexed for inflation after 2015. Institutions of higher education would continue to report the scholarship and grants that they process or administer. Better reporting of tuition and scholarships will assist taxpayers in preparing their returns and allow IRS to monitor and improve compliance.

Provide Exclusion from Income for Student Loan Forgiveness and Certain Scholarships

In general, loan amounts that are forgiven are considered taxable income to the borrower and subject to individual income tax in the year of discharge. Exceptions exist for certain, but not all, student loan repayment programs.

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[8] An eligible educational institution is a college, university, vocational school, or other postsecondary educational institution that is described in section 481 of the Higher Education Act of 1965 as in effect on August 5, 1997, and that is eligible to participate in the Department of Education's student aid programs. This includes most accredited public, nonprofit, and private postsecondary institutions.

While general tax policy principles are clear in stating that forgiven debt is income, taxing student loans forgiven under income-driven repayment plans may create a burden on taxpayers that is perceived as unfair or that undermines other policy goals[9]. In particular, there is concern that students with debt underutilize existing income-driven repayment mechanisms for student loans.[10] These plans can help keep student debt burdens manageable by allowing loan payments to adjust with income changes. Furthermore, because of concerns over the burden of student debt, the Administration has proposed relaxing the eligibility requirements for the more favorable of the income-driven repayment plans.[11]

Under income-driven repayment options, borrowers complete the repayment obligation when the loan is repaid in full (with interest) within the repayment period, or when there is a remaining balance on the loan at the end of the repayment period. For example, in the Pay As You Earn plan, borrowers can qualify for loan forgiveness after making payments for 20 years. For borrowers whose loans are not repaid at the end of the repayment period, the remaining loan balance is forgiven.

Under current law, debt forgiven by these programs is counted as income and subject to the individual income tax. While this treatment conforms to income tax principles, it may reduce the incentive to take advantage of these programs. At the time the loans are forgiven, the individuals who have met the requirements for debt forgiveness in the income-driven repayment plans would have been making payments for many years. For some individuals, paying income tax on the forgiven amounts will be difficult or a surprise, and may be a trap for the unwary. Moreover, because the most recent income-driven repayment plan, the Pay As You Earn Repayment Plan, may provide forgiveness from more borrowers than its predecessors, this problem may be more pronounced in the future.

The Administration's FY 2015 Budget proposes to exclude from gross income any loan amount forgiven for borrowers in the income-driven repayment plans.

The Budget also proposes to provide exclusions from income for debt forgiven under the Indian Health Service (IHS) Loan Forgiveness Program and for IHS Health Professions Scholarships (even though such scholarship recipients incur a work requirement). This will provide the same treatment for IHS Programs as for the National Health Service Corp and Armed Forces Health Professions programs.

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[9] The income-driven repayment plans include the Income-Based Repayment Plan, the Pay As You Earn Repayment Plan, and the Income-Contingent Repayment Plan.

[10] Based on a random sample of borrowers in repayment status as of 2010 matched to tax data, roughly 45 percent of borrowers who are not in default have annual 10-year standard payment amounts in excess of 15 percent of net income, and thus may be eligible for the existing Income-Based Repayment Plan. Among Direct Loan borrowers in repayment status as of 2010 who may be eligible for the Income-Based Repayment Plan, only 41 percent chose a repayment plan that offers lower monthly payment plans than the 10-year standard plan. Moreover, about 70 percent of borrowers in default in 2010 had incomes low enough to qualify for an income-driven repayment plan, which might have kept them out of default.

[11] Under current law, borrowers can enter the Income-Based Repayment Plan, which generally sets payments at 15 percent of discretionary income and have any remaining balance forgiven at the end of a 25-year repayment period. Under regulations issued in 2012, which expanded legislation passed in 2010, newer borrowers can also have their payments set at 10 percent of discretionary income and have any remaining balance forgiven at the end of a 20-year repayment period. This month the President directed the Department of Education to extend this option, called Pay as You Earn, to all borrowers, regardless of how recently they borrowed.

The Challenges of Education Finance

A postsecondary degree or credential confers clear economic benefits on graduates, including higher lifetime earnings, low rates of unemployment, and is even associated with better health and greater civic engagement. Increasingly, however, families are concerned about college affordability, their ability to finance educational investments, and whether the increasingly steep costs of college are a worthwhile investment.

On average, net tuition—the cost of attendance after grants and scholarships—has increased roughly 50 percent since 1994 at public four-year schools; the “sticker price” of college (before grants and scholarships) has increased much more. These trends—posted tuition growing much faster than inflation, declining support for public institutions from state governments, anemic and flat savings rates for middle income families, and limited prospects for earnings during the school year, as well as, on the positive side, increased college enrollment among students from low- and moderate-income families ——have led to student loans becoming an ever-larger part of the education financing mix. Student loan balances recently surpassed $1 trillion in face value, although much of the growth in student loan balances reflects growth in the number of borrowers, rather than in per-borrower balances.

Students and their families are caught in a difficult financial situation, feeling that a college degree or other postsecondary credential is too important to achieving a secure economic future to forgo, but struggling to pay for that investment because of rising costs. Indeed, the resulting difficulties students face in paying off student loan debt has emerged as an important economic challenge itself.

In these conditions it is imperative that government policy facilitate valuable investments in education and skills, both by helping students and families pay for college and to rein in the cost increases we have seen in recent years. Addressing these issues will require better information provision to students, their families, and policymakers. It will also require new and modified financing tools. Tax policies will surely be part of the policy mix in the future, and it is important for these policies to be as efficient and as effective as possible.

I look forward to working with Congress to address these challenges.

Table 1: Cost of Education Tax Benefits (Current Law Tax Expenditure Estimates)								
(millions of dollars)	2013	2014	2015	2016	2017	2018	2019	2015-2019
Programs for Current Education Expenses								
American Opportunity Tax Credit*	16,580	21,700	21,520	21,590	21,460	19,730	2,680	86,980
Hope Tax Credit	0	0	0	0	0	720	7,230	7,950
Lifetime Learning Tax Credit	1,810	1,680	1,720	1,740	1,740	1,880	3,100	10,180
Tuition and Fees Deduction	600	560	0	0	0	0	0	0
Dependent Exemption (does not include EITC)	5,200	5,320	5,400	5,490	5,570	5,660	5,760	27,880
Exclusion of Scholarship Income	2,890	2,980	3,090	3,200	3,310	3,420	3,550	16,570
Exclusion of Employer Provided Educational Assistance	710	750	800	850	900	950	1,000	4,500
Programs for Education Savings								
Qualified Tuition Programs	1,680	1,770	1,900	2,050	2,200	2,350	2,520	11,020
Coverdell Education Savings Accounts	70	80	100	110	120	130	150	610
Exclusion of Interest on Savings Bonds used for Education	10	10	10	20	20	20	20	90
Programs for Prior Education Expenses								
Student Loan Interest Deduction	1,720	1,720	1,780	1,780	1,790	1,790	1,840	8,980
Discharge of Student Loan Debt	90	90	90	90	100	100	100	480
Other Programs								
Exclusion of Interest on Student Loan Bonds	510	560	620	700	760	820	880	3,780
Deductibility of Charitable Contributions	4,550	5,040	5,370	5,810	6,290	6,780	7,290	31,540
Exclusion of Interest on Bonds for Private Non-profit Education Facilities	2,240	2,480	2,760	3,120	3,430	3,660	3,930	16,900
Qualified School Construction Bonds*	1,520	1,590	1,590	1,590	1,590	1,590	1,590	7,950
Credit for Zone Academy Bonds*	220	210	190	160	150	140	130	770

Notes: These estimates assume that all other aspects of the tax code are held fixed.

*These estimates include budget outlay portion.

Source: Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 2015, Analytical Perspectives, Table 14

Table 2A: Tax Benefits for Current Education Expenses					
Program	**Benefit**	**Qualifying Expenses**	**Qualifying Education**	**Qualifying Income Range**	**Expiration Date**
American Opportunity Tax Credit (AOTC)	Maximum credit of $2,500 per student, equal to 100% of first $2,000 of spending plus 25% of next $2,000 of spending. Up to $1,000 (40 percent) of the credit may be refundable.	Tuition, required fees, course related books, supplies and equipment.	May be claimed for up to four tax years for students enrolled at least half-time who purse a degree or credential.	Benefits phase out for non-joint returns between $80,000-$90,000 and for joint returns between $160,000 - $180,000.	Replaced the Hope Tax Credit beginning in 2009. Set to expire in 2017.
Hope Tax Credit (HTC)	Maximum (nonrefundable) credit of $1,800 per student, equal to 100% of the first $1,200 of spending plus 50% of the next $1,200 of spending.	Tuition and required fees.	May be claimed for up to two tax years for students enrolled at least half-time who purse a degree or credential.	Benefits phase out for non-joint returns between $54,000-$64,000 and for joint returns between $108,000 - $128,000.	Replaced by the AOTC beginning in 2009.
Lifetime Learning Tax Credit (LLTC)	Maximum (nonrefundable) credit of $2,000 per return equal to 20% of the first $10,000 of Education spending.	Tuition and required fees.	May be claimed for any number of years for all postsecondary enrollment.	Benefits phase out for non-joint returns between $54,000-$64,000 and for joint returns between $108,000 - $128,000.	None.
Tuition Deduction	Maximum deduction of $4,000 per return or $2,000 per return depending on income.	Tuition and required fees.	May be claimed for any number of years for all postsecondary enrollment.	Maximum deduction of $4,000 for joint (non-joint) returns with income not more than $130,000 ($65,000). Maximum deduction of $2,000 for joint (non-joint) returns with income more than $130,000 ($65,000) and not more than $160,000 ($80,000).	2013
Dependendent Exemption for Enrolled Students	Youths ages 19-23 may be claimed as dependents and qualify for children for the Earned Income Tax Credit if they are full-time students.	NA	Students must be enrolled fulltime for at least five months, live with the taxpayer claiming the student as a dependent for at least half of the year.	NA	None.
Exclusion of Scholarships, Grants and Tuition Reductions	Amounts received may not be taxable.	Tuition, fees, and course-related expenses including books, supplies and equipment.	K-12, undergraduate and graduate.	NA	None.
Employer Provided Educational Assistance	Up to $5,250 of employer benefit is not taxed.	Tuition, fees, and course-related expenses including books, supplies and equipment.	Undergraduate and graduate. Courses do not have to be work-related.	NA	None.
Gift tax exclusion for Education expenses	Up to $14,000 of gifts for tuition expenses is not taxable.	The gift tax does not apply to amounts paid to education institutions for tuition.	Education at qualifying education institutions.	NA	None.

Table 2B: Tax Benefits for Education Savings					
Program	**Benefit**	**Qualifying Expenses**	**Qualifying Education**	**Qualifying Income Range**	**Expiration Date**
Qualified Tuition Plans (529s)	Earnings in accounts are not subject to tax. Contributions may be receive benefit at state level. Accounts are not necessarily the property of the designated beneficairy.	Tuition and fees, books, supplies and equipment. Room and board for students enrolled at least half-time. Expenses for special needs.	Undergraduate and graduate.	None.	None.
Coverdell ESA (530s)	Earnings in accounts are not subject to tax. Up to $2,000 may be contributed each year. Accounts become the property of the benficiary (usually the intended student) at age 18 and distributions must be taken by age 30.	Tuition and fees, books, supplies and equipment. Room and board and special needs expenses for students enrolled at least half-time in postsecondary institution. Tutoring, room and board, uniforms, trasnportation and computer access for K-12 students.	K-12, undergraduate and graduate.	Individuals contributing to 530 plans must meet an AGI threshold. Maximum contribution limit phases out for non-joint returns between $95,000-$110,000 and for joint returns between $190,000 - $220,000.	None.
IRA Distributions	Distributions used for qualifying education expenses are not subject to the additional 10% tax.	Tuition and fees, books, supplies and equipment. Room and board for students enrolled at least half-time. Expenses for special needs.	Undergraduate and graduate.	None.	None.
Education Savings Bond Program	Interest on savings bonds is not taxed. Applies to EE bonds issued after 1989 or series I bonds.	Tuition and fees, payments to 529 or 530 savings plan.	Undergraduate and graduate.	Program phases out for non-joint returns between $76,000-$91,000 and for joint returns between $113,950 - $143,950.	None.

Table 2C: Tax Benefits for Proir Education Expenses

Program	Benefit	Qualifying Expenses	Qualifying Education	Qualifying Income Range	Expiration Date
Student Loan Interest Deduction	Deduction of up to $2,500 of student loan interest paid.	Loans used to pay for tuition, fees, books, supplies, equipment, room and board, transportation or other necessary expenses.	Undergraduate and graduate. Student must have been enrolled at least half-time.	Program phases out for non-joint returns between $65,000-$80,000 and for joint returns between $130,000 - $160,000.	None.
Discharge of Student Debt	Discharge of certain student loans is excluded from income subject to tax.	Loans used to pay for tuition, fees, books, supplies, equipment, room and board, transportation or other necessary expenses. Only loans made by the federal government, a state government, certain tax-exempt public benefit corporations or an educational institution.	Undergraduate and graduate.	None.	None.

Table 2D: Tax Benefits for Education Institutions					
Program	**Benefit**	**Qualifying Expenses**	**Qualifying Education**	**Qualifying Income Range**	**Expiration Date**
Deductibility of charitable contributions	Taxpayers may deduct charitable contributions to non-profit education institutions. Qualifying education institutions do not pay tax on the contributions.		Education institutions must meet the definition of charitable education institution defined in IRC 501(c)3. For education institutions, "charitable" includes the advancement of education or science and "educational" relates to the instruction or training of individuals.	None, but taxpayers must itemize in order to deduct the contribution from their income.	None.
Tax-exempt financing for education institutions	Interest on bonds issued by state and local government is excluded from income.	Qualifying bonds include private activity bonds, 501 (c) 3 bonds, student loan bonds and school construction bonds.		NA	None.
Credit for holders of zone academy bonds.	Tax-credit bonds provide tax credits to investors to replace a prescribed portion of the interest cost.	Bonds issued by a state or local government where 100 percent of the proceeds are used at "zone academies" and where at least 10 percent of the bond proceeds are contributed by private entities.	Zone academies include public schools below the college level that operates in a special academic program with businesses and is located in an empowerment zone, or in an area where at least 35 percent of students receive free and reduced price lunch.	NA	None.