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Ken Berry • Jul. 16, 2015



The move to consolidate higher education tax breaks is picking up steam. One of the groups working on tax reform for the Senate Finance Committee (SFC) has just recommended that the two higher education credits and the tuition deduction be

combined into a single credit. Earlier this year, President Obama proposed a similar

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claimed for every student in the family. For example if you have three kids in school at the same time, the maximum credit for the family is \$7,500. Also, the credit is available for four year in college, an upgrade from a prior limit of two years.

But the AOTC is phased out for upper-income parents. For single filers, the phaseout begins at \$80,000 of modified adjusted gross income (MAGI) and ends at \$90,000. The phaseout range for joint filers is between \$160,000 and \$180,000 of MAGI. These amounts are NOT indexed for inflation.

2. Lifetime Learning Credit (LLC): The tax law provision for LLC is permanent, so you don't have to worry about any extensions. But the downside is the maximum credit is only \$2,000 as opposed to the maximum \$2,500 AOTC. Even worse, the maximum LLC credit applies to each taxpayer. For instance, for those parents with three children in school at the same time, the maximum credit is still \$2,000.

Finally, the LLC is also subject to phaseout rules, at even lower levels than the AOTC. The phase-out range for 2015 is between \$55,000 to \$65,000 of MAGI for single filers and \$110,000 to \$130,000 for joint filers. At least these limits are indexed annually for inflation.

3. Tuition-and-fees deduction: Previously, you could claim an above-the-line deduction for tuition and related fees. The deduction based on MAGI was either \$4,000 or \$2,000 – there was no in-between. For single filers, the \$4,000 deduction was available for a MAGI up to \$65,000, while the \$2,000 deduction could be claimed for an MAGI between \$65,000 and \$80,000. The \$4,000 deduction for joint filers was limited to those with an MAGI up to \$130,000. Joint filers with an MAGI between \$130,000 and \$160,000 could claim the \$2,000 deduction.

However, the tuition-and-fees deduction is currently “on hold.” After being extended multiple times in the past, the deduction officially expired again after 2014. It is likely

to be reinstated retroactively, but there are no guarantees.

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In addition, the deduction for student loan interest could be reduced or eliminated under yet another phaseout rule. The phaseout range in 2015 for single filers is between \$65,000 and \$85,000 of AGI. For joint filers, the phaseout begins at \$130,000 of AMAGI and ends at \$160,000. This phaseout is subject to indexing.

The SFC “working group” assigned to individual tax reform analyzed several proposals relating to higher education. To simplify matters, it advocates combining the credits and the currently expired deduction into one credit with a fixed credit base and percentage. Although this is just an initial step, the recommendation has received some favorable feedback. Until any legislation is enacted, however, practitioners and taxpayers alike must continue to struggle with the complex collection of rules.

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