CPA
Practice Advisor

Ken Berry, JD • Sep. 03, 2022

It cost a pretty penny to send your kids to school, but at least the tax law affords some measure of tax relief. Here's a brief roundup of five key tax breaks for higher education still on the books.

1. American Opportunity Tax Credit: The maximum American Opportunity Tax Credit (AOTC) of $2,500 applies for payments of qualified expenses like tuition, room and board, fees, supplies and equipment. Notably, the AOTC is available for each student in your family, so you could, for example, claim a total credit of $5,000 for two kids in school.

However, the credit is phased out based on modified adjusted gross income (MAGI).

For 2022, the phaseout range is between $80,000 to $90,000 of MAGI for single filers

Caveat: Generally, you can claim either the AOTC or the LLC, but not both. The altenernative tuition-and-fees deduction is no longer available.

3. Student loan forgiveness. Normally, loan forgiveness results in taxable income to the borrower. However, there are certain exceptions.

Update: The president recently announced forgiveness of up to $10,000 on most federal student loans and $20,000 on Pell Grants. To qualify, an individual must have earnings of less than $125,000 or $250,000 for married couples. Under current law, there is no tax due on the forgiveness of these loans. The president's plan also extends the payment pause on federal student loans through the end of the year.

4. Student loan interest deduction: If your child is paying interest on a student loan, they can cash in a limited tax break. The taxpayer responsible for paying the debt can deduct up to $2,500 of the interest paid during the year. This deduction is claimed above the line so it reduces AGI for other tax purposes.

However, note that the deduction for student loan interest is also subject to a phase-out. For 2022, the phase-out range for single filers is between $70,000 and $85,000 of MAGI and between $145,000 and $175,000 of MAGI for joint filers.

5. Section 529 plans: Maybe your child isn't ready to enter college yet. In this case, you might set aside money for the child in a Section 529 plan. The account can grow without any tax erosion and withdrawals used to pay for qualified expenses—like tuition and room and board for full-time students—are exempt from tax. Furthermore, you can roll over unused funds from an older child's account to one for a younger child without any tax consequences.

Note: Recent legislation allows taxpayers to use a plan to pay for up to $10,000 of tuition to attend grades K-12 at a public, private or religious school.

Learn more details about high education tax breaks from your professional advisors.