Education Tax Benefits

In 2018-19, federal education tax credits reduced individual income taxes students and parents paid by an estimated $16.3 billion.

The tuition tax credits provide the largest federal tax-based subsidy to students and families, but other provisions including the deduction for interest on student loans and the exemption of earnings on designated college savings accounts also reduce taxes for filers paying for college.

Prior to the 2017 tax changes that eliminated the personal exemption, parents were allowed to claim their children ages 19 to 23 as dependents if they were full-time students, reducing tax payments and revenues by over $4 billion a year.

Tax filers with adjusted gross income below $50,000 represented 41% of the filers claiming the deduction for student loan interest in 2016; these filers received 29% of the tax savings from this provision. The relationship was the opposite for the deduction’s wealthiest recipients, with those earning more than $100,000 representing 20% of filers claiming the deduction, but 28% of tax savings because the income excluded from taxation would have been subject to a higher tax rate.

ALSO IMPORTANT:

Qualified Tuition Programs are 529 savings plans that accumulate earnings on a tax-deferred basis. Withdrawals are not subject to federal taxation if used for qualified higher education expenses, which include some room and board expenses, books, supplies, computers, and up to $10,000 annually in K–12 tuition, in addition to college tuition and fees. As of June 30, 2018, 13.6 million 529 accounts held total assets of $329 billion—averaging $24,200. (College Savings Plan Network, 529 Plan Data, 2018)

Taxpayers may claim a deduction of up to $2,500 on interest paid on education loans. The maximum deduction is phased out for taxpayers with AGI between $135,000 and $165,000 if married filing jointly ($65,000 and $80,000 for other taxpayers). The value of the deduction depends on the filer’s marginal tax rate.

NOTES: The federal government produces multiple estimates of tax expenditures using different methodologies. Estimates are projections of the future cost to the federal budget of specific tax code provisions. Estimates of tax credits and deductions are not strictly comparable to those in Table 1, which are based on Statistics of Income reports from the IRS through 2017 and estimated for later years.