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The Individual Tax Changes Aimed at Higher Ed

The House Republicans’ proposed tax reform bill “The Tax Cuts and Jobs Act” takes aims at individuals’ tax credits and deductions related to postsecondary education. Republican lawmakers support the shift as a simplification of the tax code, calling the current education incentives ineffective that leave taxpayers uncertain of the benefits for which they qualify. Some education advocacy organizations, however, disagree — in a letter to House Ways and Means Committee leadership, the American Council on Education and 45 other education advocacy organizations held that the individual tax code changes would be a “large step backwards” for students and families who benefit under current law.

A Credit Consolidation

The Republican plan repeals two tax credits, the Hope Scholarship Credit and the Lifetime Learning Credit, stating those credits are consolidated under an expanded American Opportunity Tax Credit, which now includes a fifth year of eligibility. The ACE letter claims that the proposed policy would hurt graduate students, part-time students, lifelong learners and others who take longer than five years to complete their education. Non-traditional students, which is the fastest-growing student population, would lose tax benefits under the cuts. Both of the repealed credits, unlike the AOTC, are non-refundable.

Credit	Current law	Proposed changes
AMERICAN OPPORTUNITY TAX CREDIT	Provides a 100 percent tax credit for the first \$2,000, and 25 percent for the next \$2,000, for expenses like tuition, fees and course materials. Available for up to four years of postsecondary education in a degree or certificate program. Refundable up to \$1,000.	Available for a fifth year of postsecondary education at half the rate as the first four years. Up to \$500 of the additional credit is refundable.
HOPE SCHOLARSHIP CREDIT	Provides a 100 percent credit for the first \$1,000, and 50 percent of the next \$1,000, in tuition and fee expenses. Available for two years of postsecondary education. Not refundable.	Repealed in House bill.
LIFETIME LEARNING CREDIT	Provides a 20 percent credit of up to \$10,000 of qualified postsecondary education expenses. Not refundable.	Repealed in House bill.



A Reduction in Deductions

Chief among the ACE and other education advocacy organizations’ criticisms of the bill are the elimination of the Student Loan Interest Deduction, which 12 million taxpayers benefited from in 2014. The organizations also take aim at the shift to include employer-provided education assistance as income, a benefit they say is crucial for increasing workforce competency and enhancing economic growth.

Deduction	Current law	Proposed changes
DISCHARGE OF STUDENT LOAN INDEBTEDNESS	Any student loan debt that is forgiven is considered income for tax purposes.	Any income from forgiven student loan debt that results from death or total disability of the student would be excluded from taxable income.
STUDENT LOAN INTEREST DEDUCTION	Individuals can claim a deduction of up to \$2,500 for interest payments on student loans for themselves, their spouses or dependents.	Repealed in House bill.
INTEREST ON U.S. SAVINGS BONDS FOR HIGHER ED	Interest on U.S. savings bonds are excluded from income if they are used to pay for qualified higher education expenses.	Repealed in House bill.
EMPLOYER-PROVIDED EDUCATION ASSISTANCE	Employer-provided education assistance up to \$5,250 per year, for undergraduate and graduate education, is excluded from income.	Repealed in House bill.

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