



## HIGHER EDUCATION-RELATED TAX EXTENDERS

**Issue:** Several higher education-related tax incentives have expired or are set to expire at the end of this year. These incentives make college more accessible to students across many income levels and serve to alleviate pressure on the strained budgets of students, families and institutions.

**Request:** We urge Congress to extend:

- the American Opportunity Tax Credit (expires 12/31/2012);
- Employer-Provided Educational Assistance (Sec. 127) benefits (expires 12/31/2012);
- the expanded Student Loan Interest Deduction (expires 12/31/2012);
- the expanded Coverdell Education Savings Accounts (expires 12/31/2012);
- the above-the-line deduction for qualified tuition and related expenses (expired 12/31/2011);
- and the Individual Retirement Account Charitable Rollover (expired 12/31/2011).

### **Background:**

#### **American Opportunity Tax Credit**

Set to expire at the end of 2012, the American Opportunity Tax Credit (AOTC) significantly enhances and broadens the permanent Hope Scholarship Credit by: increasing the credit from \$1,800 to \$2,500; expanding eligible expenses; making it available for four rather than only two years, increasing the income phase-out thresholds; and making the credit partially refundable. As a result, there has been a significant increase in the use of the AOTC, particularly by middle class students and their families. According to a recent U.S. Government Accountability Office study, in 2009, more than 9 million tax filers claimed the AOTC, receiving \$16 billion in tax benefits. Almost 65 percent of these benefits went to tax filers with incomes above \$40,000.

#### **Employer-Provided Educational Assistance Benefits**

Also expiring at the end of 2012 is Sec. 127, which allows an employer to offer an employee up to \$5,250 per year in tax-free educational assistance for undergraduate or graduate-level courses. This benefit covers tuition, fees, books, supplies, and equipment and has been an important means of building the competencies of the workforce.

#### **Student Loan Interest Deduction**

Currently, the Student Loan Interest Deduction (SLID) allows individuals earning under \$60,000 (or \$120,000 for couples filing jointly) to deduct up to \$2,500 in student loan interest. Individuals earning between \$60,000 and \$75,000 (and couples filing jointly earning between \$120,000 and \$150,000) receive a prorated deduction. Unless the current SLID is extended, the deduction will revert to an older law in which student loan interest will be deductible only for the first 5 years of repayment, with limited income thresholds.

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### **Coverdell Education Savings Accounts**

A Coverdell ESA is an account that allows parents and students to save for education expenses. While the contributions to a Coverdell ESA are not deductible, the amounts deposited grow tax free until distributed. The student will not owe taxes on the distributions if they are less than the student's qualified educational expenses. If not extended, Coverdell ESAs will revert from allowing contributions of up to \$2,000 to only \$500 on January 1, significantly impacting families' ability to save for higher education.

### **Above-the-Line Deduction for Qualified Tuition and Related Expenses**

The above-the-line tuition deduction enables taxpayers with a modified adjusted gross income of \$65,000 or less a year (\$130,000 for married couples filing jointly) to deduct up to \$4,000 annually in tuition and related expenses. Individuals with a modified adjusted gross income more than \$65,000 but not more than \$80,000 (more than \$130,000 but not more than \$160,000 for married couples filing jointly) are eligible for a deduction of up to \$2,000.

### **Individual Retirement Account Charitable Rollover**

The IRA Charitable Rollover allows individuals 70½ and older to donate up to \$100,000 from their IRAs and Roth IRAs to public charities, including colleges and universities, without having to count the distributions as taxable income. The IRA Charitable Rollover has increased giving to all public charities, including colleges and universities. A 2007 survey by the Council for Advancement and Support of Education, along with several higher education organizations, found that 67 percent of the gifts to institutions were in amounts of \$10,000 or less. More than 80 percent of respondents indicated that the IRA Charitable Rollover resulted in gift revenue that otherwise would not have been received by their college or university. The IRA Rollover expired on December 31, 2011, at a time when public funding for higher education continues to decline and colleges and universities are depending more and more on private support.

The American Opportunity Tax Credit, the above-the-line deduction for qualified tuition and related expenses, the Employer-provided Educational Assistance benefits, the expanded Student Loan Interest Deduction, and the expanded Coverdell Education Savings Accounts enhance access to higher education by providing needed support to students or their families.

NACUBO also supports efforts to simplify and consolidate several of the higher education tax credits and deductions to make them easier to use and therefore more effective.