

## Tax Breaks for Higher Education: A Fact Sheet for Parents and Students

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### Purpose

Expenses for higher education offer taxpayers many ways to reduce their income taxes. This can provide some relief from the high cost of college, graduate school, and other higher education courses. Careful planning before the expenses are incurred will assure that parents and students receive the full benefit of these complicated tax breaks.

The Tax Breaks for Higher Education fact sheet gives parents and students the information they need to maximize tax benefits from expenses they incur for higher education. Other sources that deal with this topic—even those aimed at financial and tax professionals—typically leave out critical details that could lead to poor decisions on the part of parents and students. Families must be able to clearly determine if they and the types of expenses they have qualify for specific tax breaks, and how claiming one tax break will affect their eligibility for others. This fact sheet fills that gap.

### Contents

Each section in this fact sheet was developed to help readers find the information they need. An overview of each of the nine tax breaks that are currently available acquaints readers with the major features and requirements of each. The featured tax breaks include the Education IRA, Withdrawals from Retirement IRAs, Hope Scholarship Credit, Lifetime Learning Credit, Student Loan Interest Deduction, Qualified State Prepaid Tuition Programs, Employee Assistance Plans, EE Bond Interest Deduction, Education Bonds.

The benefits, requirements, and limitations for each tax break are presented in table format so that the reader can compare tax breaks head to head or quickly scan all of the information for one tax break. These details answer questions such as, will my level of income limit my ability to use the tax break? Or, is it the taxpayer or the dependent who can claim the tax break? Separate tables cover each of these topics: 1) Tax Breaks: Basic Characteristics, 2) Whose Expenses and What Expenses are Allowable?, 3) Requirements for Student and Institution, 4) Type of Education Program Covered, 5) Additional Restrictions on Claiming Tax Breaks.

Some terms used in this fact sheet have very specific definitions. For others, the definition varies from one tax break to another. The Explanation of Terms section provides definitions and explanations to clear up any questions or confusion.

Claiming one tax break may limit or prevent the taxpayer from using other tax breaks. The section on Combining Tax Breaks shows families how using one tax break affects eligibility for others so they can maximize the benefits they get.

The final section of the fact sheet provides tips on ways to make the most of tax breaks.

### Using the Fact Sheet

This fact sheet focuses on the tax aspects of several ways to pay for or take deductions for higher education expenses. Readers will need to also weigh other advantages or disadvantages in choosing the tax breaks they will use. Other aspects may be equally or even more important in planning how to handle education expenses. Readers are encouraged develop a savings plan for meeting those expenses to if they have some time before higher education expenses will be incurred.

To illustrate how the fact sheet may be used by families, this poster session also looks at two hypothetical families in different income categories whose children are at different stages in college and who have used various methods to save for college. Their situations are analyzed using the contents of the fact sheet to determine what tax breaks may be available to them and which choices of tax breaks may be most advantageous.

### Endnotes

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