



Back-to-school tax breaks on the books

Despite the COVID-19 pandemic, students are going back to school this fall, either remotely, in-person or under a hybrid schedule. In any event, parents may be eligible for certain tax breaks to help defray the cost of education.

Here is a summary of some of the tax breaks available for education.

1. **Higher education tax credits.** Generally, you may be able to claim either one of two tax credits for higher education expenses — but not both.
 - With the American Opportunity Tax Credit (AOTC), you can save a maximum of \$2,500 from your tax bill for each full-time college or grad school student. This applies to qualified expenses including tuition, room and board, books and computer equipment and other supplies. But the credit is phased out for moderate-to-upper income taxpayers. No credit is allowed if your modified adjusted gross income (MAGI) is over \$90,000 (\$180,000 for joint filers).
 - The Lifetime Learning Credit (LLC) is similar to the AOTC, but there are a few important distinctions. In this case, the maximum credit is \$2,000 instead of \$2,500. Furthermore, this is the overall credit allowed to a taxpayer regardless of the number of students in the family. However, the LLC is also phased out under income ranges even lower than the AOTC. You can't claim the credit if your MAGI is \$68,000 or more (\$136,000 or more if you file a joint return).

For these reasons, the AOTC is generally preferable to the LLC. But parents have still another option.

2. **Tuition-and-fees deduction.** As an alternative to either of the credits above, parents may claim an above-the-line deduction for tuition and related fees. This deduction is either \$4,000 or \$2,000, depending on the taxpayer's MAGI, before it is phased out. No deduction is allowed for MAGI above \$80,000 for single filers and \$160,000 for joint filers.

The tuition-and-fees deduction, which has been extended numerous times, is currently scheduled to expire after 2020. However, it's likely to be revived again by Congress.

In addition to these tax breaks, there are other ways to save and pay for college on a tax advantaged basis. These include using Section 529 plans and Coverdell Education Savings Accounts. There are limits on contributions to these saving vehicles.

Note: Thanks to a provision in the Tax Cuts and Jobs Act, a 529 plan can now be used to pay for up to \$10,000 annually for a child's tuition at a private or religious elementary or secondary school.

Final lesson

Typically, parents are able to take advantage of one or more of these tax breaks, even though some benefits are phased out above certain income levels.