

Temporary Tax Provisions ("Tax Extenders"): The Tuition and Fees Deduction

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The tuition and fees deduction—which allows taxpayers to reduce their taxable income by certain higher-education expenses—expired at the end of 2014. In the past, Congress has extended this provision temporarily and may choose to do so again. The [Senate Finance Committee recently reported legislation](#), the Tax Relief Extension Act of 2015 ([S. 1946](#)), that would extend this and other temporary tax provisions. Under this proposal, the tuition and fees deduction and most other expired tax provisions would be extended for two years, through 2016. The Joint Committee on Taxation (JCT) estimates that the deduction would [reduce revenues by \\$608 million between 2016 and 2025](#).

Deduction Amount

The tuition and fees deduction allows eligible taxpayers to reduce their taxable income by the amount of qualified tuition and fees incurred by the taxpayers, their spouses, or their dependents. The maximum deduction taxpayers can claim depends on their income level. Taxpayers can deduct up to

- \$4,000 if their income is \$65,000 or less (\$130,000 or less if married filing jointly); or
- \$2,000 if their income is between \$65,000 and \$80,000 (\$130,000-\$160,000 if married filing jointly).

Taxpayers with income above \$80,000 (\$160,000 for married joint filers) are ineligible for the deduction. (Detailed definitions and eligibility rules for this benefit can be found in the [IRS's Publication 970](#).)

Legislative History

The tuition and fees deduction was originally enacted as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 ([P.L. 107-16](#)). The deduction went into effect in 2002 and was originally scheduled to expire at the end of 2005. It was subsequently extended by several laws: [P.L. 109-342](#) (through the end of 2007), [P.L. 110-343](#) (through the end of 2009), [P.L. 111-312](#) (through the end of 2011), [P.L. 112-240](#) (through the end of 2013), and most recently by the Tax Increase Prevention Act of 2014 ([P.L. 113-295](#)), which extended the deduction through 2014.

Discussion

The tuition and fees deduction provides federal financial assistance to students from middle-income families. At the time this deduction was originally enacted, there were two other tax benefits for tuition expenses, [the Hope and Lifetime Learning tax credits](#). Congress enacted this provision because, [according to the JCT](#), it

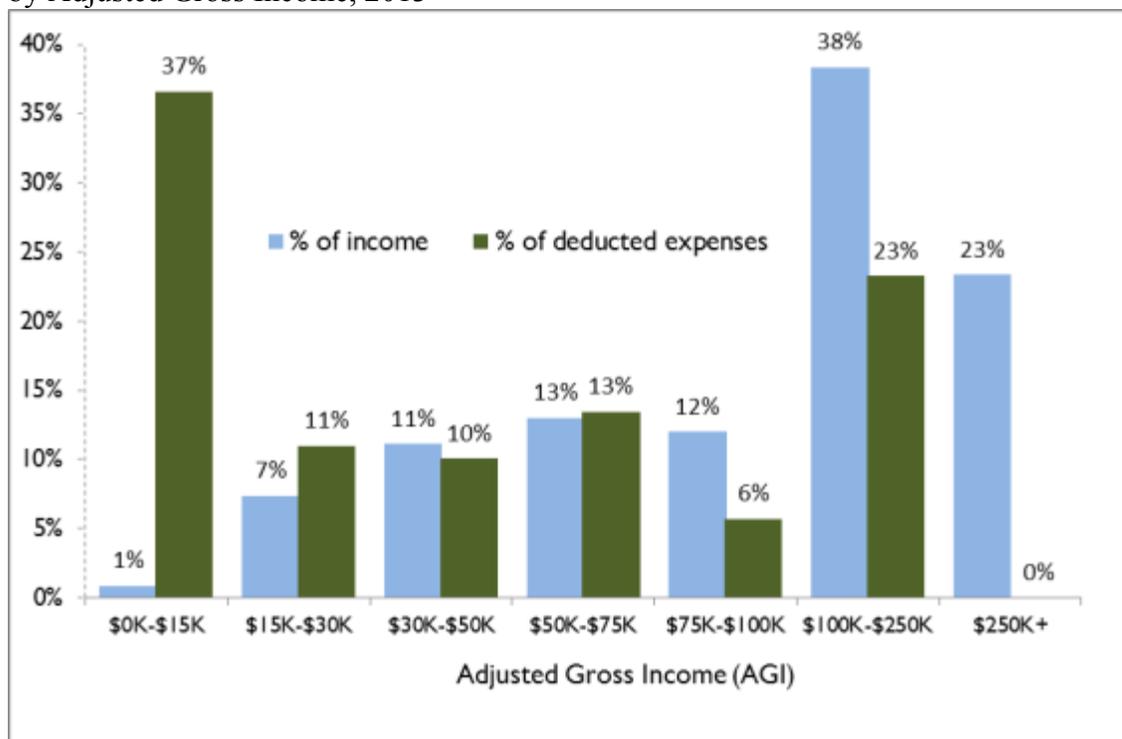
recognized that in some cases a deduction for education expenses may provide greater tax relief than the present-law credits. The Congress wished to maximize tax benefits for education, and provide greater choice for taxpayers in determining which tax benefit is most appropriate for them.

The deduction can be evaluated by policymakers in a variety of ways, including who receives the benefit, the impact of the benefit on taxpayer behavior, and in what ways it might contribute to complexity in the tax code.

Is the deduction claimed mostly by middle-income taxpayers?

Data from the Internal Revenue Service (IRS), summarized in [Figure 1](#), indicate that this deduction is claimed by *both* taxpayers with relatively low income (adjusted gross income (AGI) of under \$15,000) and upper-middle-income filers (AGI of \$100,000 to under \$250,000). Approximately 43% of the dollars deducted are claimed by taxpayers with AGI between \$15,000 and \$100,000. Relative to the distribution of AGI (illustrated in blue in [Figure 1](#)), the tuition and fees deduction is skewed towards the lower end of the income distribution.

Figure 1. Distribution of Income and Tuition and Fees Deduction, by Adjusted Gross Income, 2013



Source: [IRS Statistics of Income Table 1.4](#).

However, the amount *deducted* is not the same as the amount of *tax savings*. The amount of tax savings is proportional to a taxpayer's tax bracket. Since taxpayers with higher income face higher marginal tax rates, the value of the deduction for these taxpayers will be larger than for lower-income taxpayers. These data suggest that the deduction ([like other education tax provisions](#)) tends to provide the most benefit to middle- and especially upper-middle-income families, who may not benefit from other forms of traditional student aid, like [Pell grants](#).

Does the deduction (or do other education-related tax incentives) lead to more college attendance?

While education-related tax incentives reduce tax burdens for students and their families, one question is whether tax benefits lead to additional college attendance. Overall, the evidence suggests that if tax benefits do encourage students to attend college, these effects are probably modest. [One study found](#) that 93% of recipients of tax based aid (tax credits and the tuition and fees deduction) would have attended college in the absence of these benefits. This may be because, [according to a Congressional Budget Office \(CBO\) paper](#), "empirical research indicates that tuition levels had little effect on enrollment rates of students from middle and high-income families" who are generally the recipients of tax-based aid.

Tax-based aid may have a limited effect on attendance for a variety of factors, including it is not targeted to lower-income students who tend to be more sensitive to the price of college when deciding to enroll; the benefit can be received up to 15 months after expenses have been incurred, providing limited benefit to families who need to pay for

college up front; and given the variety of tax benefits available to offset tuition costs, taxpayers may not know whether an education tax credit or the tuition and fees deduction provides the largest benefit in terms of tax savings.

Does the deduction contribute to tax code complexity?

[The Government Accountability Office \(GAO\) found](#) that the complexity of tax benefits may be one reason that nearly 20% of tax filers fail to make optimal education-related tax decisions. Calculating the tax savings of each provision can ["place substantial demands on the knowledge and skills of millions of students and families."](#)

The frequent expiration and subsequent extension of the tuition and fees deduction and the associated uncertainty may further exacerbate the complexity of this education tax benefit. While a permanent or longer term extension may reduce complexity, policymakers may still be interested in modifying this and other tuition- or education-related tax benefits to further policy goals.