Higher Education Tax Incentives/American Opportunity Tax Credit

In addition to federal student financial aid, college students and their parents rely on federal higher education tax credits to help cover a portion of their college costs. Legislative proposals to consolidate these various tax credits continue to be proposed as part of comprehensive tax reform efforts.

Many parents and students qualify for the American Opportunity Tax Credit (AOTC), which significantly expanded the Hope Scholarship Credit. Many of those eligible qualify for the maximum annual credit of $2,500 per student, of which up to $1,000 is fully refundable and can be claimed for the first 4 years of postsecondary, degree-seeking education. The AOTC was extended through 2017 by the American Taxpayer Relief Act of 2012.

On June 25, the House Ways and Means Committee approved the Student and Family Tax Simplification Act (H.R. 3393), a bill that would consolidate the Hope tax credit, the tuition and fees deduction, and the Lifetime Learning Credit into an improved American Opportunity Tax Credit. AACC strongly supported the bill as introduced last October by Reps. Diane Black (R-TN) and Danny Davis (D-IL). In an unusual twist, the bill was approved on a party-line vote, after it was amended. The original version of the legislation lowered the income caps for eligibility. However, committee chair Rep. Dave Camp (R-MI) offered an amendment, which was adopted, that restored the caps and thus raised the projected cost of the bill from approximately $30 billion over 10 years to more than $90 billion.

Currently, an estimated 1 million college students with unmet financial need do not receive any benefit from the AOTC due to poor coordination with the Pell Grant program, with the vast majority of these students attending low-cost institutions such as community colleges. H.R. 3393 remedies this by amending the AOTC so that the Pell Grant funds are no longer counted against a student’s tuition and living expenses.

The full House approved the measure on July 24, but the Senate has no plans to consider similar legislation. AACC will continue to advocate on this issue.

Earlier in July, the House approved a permanent extension of the IRA Charitable Rollover as part of a package of five charitable giving tax provisions (H.R.4719). The IRA Charitable Rollover provision would allow individuals age 70 ½ and older to donate up to $100,000 from their IRAs and Roth IRAs to charities without having to count the distributions as taxable income. AACC joined ACE and several other higher education associations in supporting this important provision since it serves as an incentive for generous donations to colleges. Prospects for passage in the Senate remain unclear, in part because this provision has an estimated cost of $16 billion and no revenue sources have been identified to offset the cost. The White House is on record as opposing the measure.
AACC Policy Positions:

- AACC supports the Student and Family Tax Simplification Act and similar efforts to streamline, improve, and extend tax-based aid.
- AACC supports the preservation of the charitable deduction, since donations to our college foundations provide critical funding for programs and scholarships.
- Additionally, Congress should renew benefits associated with the IRA Charitable Rollover, which allows older individuals to donate up to $100,000 from their IRA and Roth IRA accounts to public charities, including community colleges. This provision expired at the end of 2013.