



Lifetime Learning Tax Credit (LLC)

Internal Revenue Code Section 25A

What is the Lifetime Learning Tax Credit?

The federal government offers two income tax credits to help offset the costs of higher education. They are the American Opportunity Tax Credit (AOTC) (formerly the Hope Scholarship Tax Credit) and the Lifetime Learning Tax Credit (LLC). The LLC is discussed here.

The LLC is a non-refundable tax credit of up to \$2,000 per family that is subtracted directly from the amount of income tax a taxpayer owes to the federal government (instead of being subtracted from taxable income like a tax deduction).

This means taxpayers who owe less tax than the maximum amount of the LLC for which they are eligible can only take a credit up to the amount of taxes they actually owe.

A taxpayer can claim the LLC for up to 20 percent of the his or her first \$10,000 of out-of-pocket qualified tuition and related expenses. This credit is capped at \$2,000 per taxpayer (even for joint filers with multiple students in a household). The credit can include all of the qualifying educational expenses pooled together from the taxpayer, the taxpayer's spouse, and/or taxpayer's dependent(s). This is different from the AOTC, which is based on the number of dependents in a family.

The LLC is calculated on eligible expenses paid during the calendar year. A student may be enrolled in an

undergraduate or graduate degree program at an eligible school during the calendar year or may be enrolled in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. The credit is available for all years of postsecondary education.

There is no limit on the number of years the LLC can be claimed for each student in a family.

Taxpayers cannot claim the LLC if their Modified Adjusted Gross Income is \$60,000 or more for a single taxpayer, or \$120,000 or more for married taxpayers filing a joint return. The actual amount of the credit depends on a family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition.

The LLC is not available to married taxpayers who file separate returns.

Who Benefits and How?

The LLC Credit was enacted to help make college more affordable by reducing the cost of higher education relative to income.

The LLC is a valuable incentive for taxpayers to pursue higher education or to acquire new or enhanced job skills. In this way, the LLC helps to expand, update, and keep competitive the knowledge and skills of our nation's workforce.

Lifetime Learning Tax Credit

continued

To apply for the LLC, taxpayers must report the qualified expenses, as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. Universities are required to send information on tuition and fee payments to each taxpayer and to the IRS in the form of a 1098-T statement.

91 percent of undergraduates or their parents who have out-of-pocket tuition and fee expenses – including tuition and fees financed with student loans – and also file taxes are eligible for a tax credit, such as the LLC, or deduction.

Source: New America Tax Benefits Survey

A family may claim both the LLC and the AOTC, as long as the same student isn't used as the basis for both credits and the family doesn't exceed the LLC maximum per family.

Proposals for Strengthening the LLC

AAU has long supported simplification of higher education tax incentives, given that the multiplicity of credits, complex rules for claiming such credits, and sometimes confusing interaction of these credits, make them difficult for the average taxpayer to use as effectively as Congress intended. In fact, a 2008 study by the Government Accountability Office (GAO) found that “[s]ome tax filers do not appear to make optimal education-related tax decisions” and that a likely explanation of “these taxpayers’ choices may be the complexity of postsecondary tax

provisions, which experts have commonly identified as difficult for tax filers to use.”

An improved LLC should work well for both traditional and nontraditional undergraduates, particularly low- and middle-income students. Further, any credit that consolidates the LLC and the AOTC should provide benefits to graduate students and lifelong learners, many of whom are low-income and need assistance in pursuing additional skill development or the advanced degrees that employers and our economy need. We propose the following changes:

Consolidate the AOTC and LLC into a two-part AOTC

1. Consolidation should include the current AOTC, partially refundable, eligible for students enrolled at least half-time, and limited to four years; and
2. a non-refundable credit of \$2,000 (like the LLC) that, like the AOTC, would cover 100 percent of the first \$2,000 of the AOTC’s eligible expenses. A consolidated AOTC should be indexed to inflation.

This proposal would simplify the LLC and also create greater parity for students beyond their first four years of college and lifetime learners. In addition, the AOTC part two would provide a benefit for graduate students who have suffered from recent decisions by policymakers to end graduate student eligibility for federal subsidized loans and require them to pay higher interest rates on student loans than undergraduates, a troubling pattern of increasing the cost of education for students pursuing advanced degrees.

Fix the AOTC-Pell Grant Interaction

A consolidated AOTC should better coordinate the interaction of the AOTC with the Pell grant and exclude the Pell grant from taxable income. Currently, the AOTC eligibility formula sharply limits the size of the tax credit received by needy students at the lowest cost schools. As a result, many of the lowest-income students do not receive any benefit from the current AOTC. Ideally, Pell grants also should be excluded from taxable income for purposes of a “reformed” AOTC.

[Additional Information](#)

Congressional Research Service Report

“The American Opportunity Tax Credit: Overview, Analysis, and Policy Options”

<https://fas.org/sgp/crs/misc/R41967.pdf>

Joint Committee on Taxation Report, JCX-62-12

“Present Law and Background Relating to Tax Exemptions and Incentives for Higher Education”

<https://www.jct.gov/publications.html?func=startdown&id=4474>

IRS Publication 970

Tax Benefits for Education

<http://www.irs.gov/pub/irs-pdf/p970.pdf>

GAO Study

“Multiple Higher Education Tax Incentives Create Opportunities for Taxpayers to Make Costly Mistakes”

<http://waysandmeans.house.gov/media/pdf/110/GAO5108.pdf>

New America Tax Benefit Policy Brief

“A New Look at Tuition Tax Benefits”

<https://www.newamerica.org/education-policy/policy-papers/a-new-look-at-tuition-tax-benefits/>