National Association of Independent Colleges and Universities (NAICU)

Higher Education Tax Benefits for Students and Families

Tax code provisions for higher education are uniquely situated to reach families before, during, and after college enrollment – encouraging them to plan ahead for college, helping to ease payment burdens during college, and assisting graduates with loan repayments. We urge that any tax reform continue to reach families at all three stages of the college financing process.

Saving for College: **The tax code should continue to encourage college savings. By doing so, the federal government incentivizes financial responsibility in families with the means to save for college. This long-term planning helps reduce student debt, and allows governments and charities to better target scarce student aid funds to those without the means to save.**

- Preserve Sec. 529 College Savings Plans which have incentivized every state to develop and promote robust plans, often matching federal tax incentives with incentives by states.

- Preserve Coverdell Education Saving Accounts which have incentivized banks and other financial institutions to publicize and promote college savings plans.

Paying for College: **It is in the national interest for the federal government to continue to provide tuition tax incentives directly to (1) certain income levels of taxpayers, and (2) employers who provide tuition benefits to employees.**

- Taxpayers would benefit from simplification of the current system through the creation of a single, permanent tax credit with automatic inflation adjustments. A permanent AOTC-style credit, for example, available beyond the first four years of college, would negate the need for a Hope tax credit, a Lifetime Learning credit and the Tuition Deduction.

- Employers should be incentivized to provide tuition benefits to working students in order to further their career opportunities. Sec. 127 – employer provided education assistance – should be enhanced to allow employers to offer higher levels of tax-favored tuition assistance to their employees. The $5,250 annual limit, which has not changed since the 1970s, should be increased with an automatic adjustment for inflation.

Repaying Student Loans: **The tax code should continue to assist students who have to borrow to finance their college education, and the federal government should not tax the loan debt it forgives.**

- Recent federal actions have increased the borrowing costs for students and recent graduates by eliminating the 6-month interest forgiveness low-income college graduates have traditionally received, and by implementing interest charges for low-income graduate students while they are in school. With these increased loan costs, the deduction for student loan interest becomes even more important. The Student Loan Interest Deduction should be expanded to allow the full amount of interest to be deductible.

- The federal government provides loan forgiveness for certain forms of public service (including teaching, military service, and some non-profit work) – but it then taxes the value of the forgiveness, potentially causing greater economic hardship than the original debt. Removing this tax should be a top priority before the first large-scale group of borrowers is affected.