

# The Federal Tax Code: Higher Education Tax Benefits and Latinos

The “Tax Cuts and Jobs Act,” the latest tax bill from House Republicans, would result in a massive tax cut for the richest Americans and big corporations, while providing little, if any, tax relief to working- and middle-income families.<sup>1</sup> Corporations would see their rate drop from 35% to 20%, amounting to a \$1.5 trillion tax cut, and the rich would disproportionately benefit: about 45% of the bill’s tax cuts would go to households with incomes above \$500,000.<sup>2</sup> To pay for these massive tax cuts, the bill proposes eliminating several tax deductions, but the revenue raised would be insufficient to cover the cost. Therefore, spending on important programs like health care, nutrition, education, and housing, will be slashed, jeopardizing the well-being of Latino families.

The tax code currently has some provisions that help students and student loan holders make ends meet. For example, the American Opportunity Tax Credit (AOTC) allows students and their families to deduct expenses for higher education from their tax liability. Additional tax deductions are aimed at making higher education more affordable, including the deduction for tuition and fees and a deduction for interest paid on student loans. Costs associated with higher education are higher than ever and these credits are essential to helping hardworking students and families pay for their education and afford necessities like food, health care, and rent.

## **What Is the American Opportunity Tax Credit?**

The AOTC allows people to deduct up to \$2,500 in undergraduate education expenses from their federal taxes. The education expenses must be for a student who is enrolled at least half-time for one or more semesters during the year, and the AOTC can be used for up to four years of education. The AOTC benefits single taxpayers with income under \$90,000 and married couples with incomes up to \$180,000.<sup>3</sup> Up to \$1,000 of the AOTC is refundable and either the student, or the parent or guardian who paid for the expenses, can claim the AOTC. Currently,

the credit is legally available to qualified taxpayers using a Social Security number or an Individual Taxpayer Identification Number (ITIN).

## **What About Other Higher Education Tax Deductions?**

### **Tuition and Fees**

Currently, students or parents—whoever pays—can deduct up to \$4,000 from their taxable income for tuition and fees paid for postsecondary education. To utilize the deduction, single filers' income may not exceed \$65,000 and married filers' income must not exceed \$130,000. Since it is a deduction and is not refundable, the tuition and fees deduction benefits families with taxable income.

### **Student Loan Interest**

The student loan interest deduction allows taxpayers with student loans to reduce their taxable income by the lesser of \$2,500 or the interest paid on their student loans that year. To qualify in 2017, income for single filers and married couples may not exceed \$80,000 and \$160,000, respectively. Like the tuition and fees deduction, this deduction also only benefits families with tax liabilities.

## **Who Benefits from the AOTC and Other Higher Education Deductions?**

In 2013, 10% of tax filers claimed the AOTC, amounting to a total of \$17.8 billion in credits, with \$5 billion of them refunded to students and families.<sup>4</sup> That same year, the majority (78%) of AOTC benefits went to taxpayers making less than \$100,000.<sup>5</sup> Taxpayers filing with an ITIN—the majority of whom are Latino—accounted for 1.1% of American Opportunity Tax Credits claimed, amounting to \$204 million.<sup>6</sup>

The AOTC's partial refundability provision benefits working-class families. In 2013, more than half (59.9%) of the refundable portion of the AOTC was claimed by taxpayers earning less than \$20,000 per year. In contrast, a little over 6% of taxpayers earning between \$50,000 and \$200,000 claimed the refundable portion of the AOTC.<sup>7</sup>

As the tuition and fees and student loan interest deductions are not refundable, the benefits go toward higher-income families, who have taxable income. Roughly half of the benefits from the

tuition and fees deduction and 23% of the student loan interest deduction go to households with annual incomes of \$100,000 or more.<sup>8</sup>

These credits also stand to affect the Latino community. A record 3.6 million Latino undergraduates were enrolled in 2016, and increased enrollment is expected to continue, with one-in-five undergraduates projected to be Latino by 2025.<sup>9</sup> With increasing numbers of Latinos enrolling in undergraduate education, the AOTC and higher education tax deductions remain important to improve affordability while students are in school and after they graduate.

## What About Tax Reform?

The House Republican tax bill strips financial support from young adults pursuing higher education to pay for tax cuts for the rich. Repealing education tax deductions, including those for tuition and fees and student loan interest, would take \$47.5 billion from American college students and their families.<sup>10</sup> Further, a proposal to require a work-eligible Social Security number for the student to claim the AOTC is a direct attack on taxpaying immigrant students and families. This proposal would take \$800 million in benefits away that help them pay for college and have a chance to get ahead.<sup>11</sup>

Congress should oppose a tax agenda that makes it harder for young adults and families to manage the high costs of higher education. Instead of providing trillions in tax cuts for the rich and large corporations, Congress should enact true tax reform that raises revenue to invest in our economy, is progressive to ensure all pay their fair share, supports working families and children to reduce poverty, and promotes economic mobility and asset-building for those struggling to get ahead.

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All sources accessed November 2017.

<sup>1</sup> House Committee on Ways and Means, *Tax Cuts and Jobs Act, H.R. 1, Section-by-Section Summary*, report prepared by House Ways and Means Committee Majority Tax Staff, 115th Cong., 1st sess., 2017, [https://waysandmeansforms.house.gov/uploadedfiles/tax\\_cuts\\_and\\_jobs\\_act\\_section\\_by\\_section\\_hr1.pdf](https://waysandmeansforms.house.gov/uploadedfiles/tax_cuts_and_jobs_act_section_by_section_hr1.pdf).

<sup>2</sup> Chye-Ching Huang and Guillermo Herrera, "Joint Committee on Taxation Distribution Tables Confirm Skewed Priorities of House Tax Bill," (Washington, DC: Center on Budget and Policy Priorities, 2017) <https://www.cbpp.org/research/federal-tax/joint-committee-on-taxation-distribution-tables-confirm-skewed-priorities-of>.

<sup>3</sup> Tax Policy Center, *Briefing Book: Key Elements of the U.S. Tax System*, (Washington, DC: Tax Policy Center, 2017), <http://www.taxpolicycenter.org/briefing-book/what-tax-incentives-exist-help-families-pay-college>.

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<sup>4</sup> U.S. Government Accountability Office, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of the Data Could Strengthen IRS's Efforts to Address Noncompliance*. Washington, DC, 2016, <http://www.gao.gov/assets/680/677548.pdf>.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Margot L. Crandall-Hollick, "The American Opportunity Tax Credit: Overview, Analysis, and Policy Options," (Washington, DC: Congressional Research Service, 2016) <https://fas.org/sgp/crs/misc/R42561.pdf>.

<sup>8</sup> The Reimagining Aid Design and Delivery (RADD) Consortium for Higher Education Tax Reform, *Higher Education Tax Reform: A Shared Agenda for Increasing College Affordability, Access, and Success*, (Washington, DC: CLASP, Young Invincibles, New America, Education Trust, 2013), <http://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/2014.06.20-Consortium-for-Higher-Ed-Tax-Reform-FINAL.pdf>.

<sup>9</sup> John Gramlich, "Hispanic Dropout Rate Hits New Low, College Enrollment at a New High," September 29, 2017, Pew Research Center, <http://www.pewresearch.org/fact-tank/2017/09/29/hispanic-dropout-rate-hits-new-low-college-enrollment-at-new-high/>; and U.S. Department of Education, *Digest of Education Statistics, 2015*, Table 306.30.

<sup>10</sup> The Joint Committee on Taxation estimates combine the effects of repealing five higher education tax deductions. Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 1, the "Tax Cuts and Jobs Act,"* report prepared by the Joint Committee on Taxation, 115th Cong., 1st sess., 2017, <https://waysandmeansforms.house.gov/uploadedfiles/jct.pdf>.

<sup>11</sup> Ibid.