

U.S. Department of Education

The HOPE Scholarship and Lifetime Learning Credits

Background:

On [August 5, 1997](#) both the [Balanced Budget Act of 1997](#) and the [Taxpayer Relief Act of 1997](#) were enacted. The Taxpayer Relief Act of 1997 provides for the HOPE Scholarship and Lifetime Learning Credits and opens the doors of college to a new generation, with the largest investment in higher education since the G.I. Bill 50 years ago. The IRS has issued [Publication 970: Tax Benefits for Higher Education](#) to provide guidance on the higher education tax incentives enacted by the Taxpayer Relief Act of 1997 (Pub. L. No. 105-34, 111 Stat. 788) (TRA '97). The [Families' Guide to the 1997 Tax Cuts for Education](#) provides additional information to students and parents on these new tax cuts as well.

The centerpiece of the middle class tax cut has been promoting expanded educational opportunity. When fully phased in, [13.1 million students--5.9 million claiming the HOPE Scholarship, and 7.2 million claiming the Lifetime Learning Credit](#)--are expected to benefit each year.

Overview:

\$1,500 HOPE Scholarship to make the first two years of college universally available. For students in the first two years of college (or other eligible post-secondary training), taxpayers will be eligible for a tax credit equal to 100% of the first \$1,000 of tuition and fees and 50% of the second \$1,000 (the amounts are indexed for inflation after 2001). The credit will be available on a per-student basis for net tuition and fees (less grant aid) paid for college enrollment after December 31, 1997. [The credit is phased out for joint filers between \\$80,000 and \\$100,000 of income, and for single filers between \\$40,000 and \\$50,000 \(indexed after 2001\).](#) The credit can be claimed in two taxable years (but not beyond the year when the student completes the first two years of college) with respect to any individual enrolled on at least a half-time basis for any portion of the year.

Lifetime Learning Credit for College Juniors, Seniors, Graduate Students and working Americans pursuing lifelong learning to upgrade their skills. For those beyond the first two years of college, or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first \$5,000 of tuition and fees through 2002, and for the first 10,000 thereafter. The credit is available for net tuition and fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis, and is phased out at the same income levels as the HOPE Scholarship.

Education Savings Accounts. For each child under age 18, families may deposit \$500 per year into an Education IRA. Earnings would accumulate tax-free and no taxes will be due upon withdrawal for net post-secondary expenses for tuition, fees, books, equipment, and room and board. The Education IRA is phased out for families with incomes between \$150,000 and \$160,000, and for single filers between \$95,000 and \$110,000. A taxpayer who uses tax-free distributions from an Education IRA may not, in the same year, benefit from the HOPE Scholarship or Lifetime Learning Credit.

Student Loan Interest Deduction. Allows an above-the-line deduction (the taxpayer does not need to itemize in order to benefit) for interest paid in the first 60 months of repayment on private or government-backed loans, post-secondary education and training expenses. The maximum deduction is \$1,000 in 1998, \$1,500 in 1999, \$2,000 in 2000, and \$2,500 in 2001 and beyond. It is phased out for joint filers with incomes between \$60,000 and \$75,000, and to single filers with incomes between \$40,000 and \$55,000 (indexed after 2002). The deduction is available for loans made before or after enactment of this provision, but only to the extent that the loan is within the first 60 months of repayment. The loan amount eligible for the deduction is limited to post-secondary expenses for tuition, fees, books, equipment, room, and board.

IRA Withdrawals. Taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, spouse, child, or grandchild. The amount that can be withdrawn without penalty is limited to net post-secondary expenses for tuition, fees, books, equipment, and room and board.

Employer-Provided Education Benefits. Extends Section 127 of the tax code for undergraduates for three years (for courses beginning prior to June 1, 2000). This provision allows workers to exclude up to \$5,250 of employer-provided education benefits from their taxable income.

Community Service Loan Forgiveness. Excludes from taxable income loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community-service jobs addressing unmet needs.

Expand benefits for pre-paid tuition plans . Allows State-sponsored pre-paid tuition plans -- the earnings from which not taxed until the time of withdrawal as a result of last year's tax bill -- to include room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship and Lifetime Learning tax credits.

Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities . Repeals the \$150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal applies to tax-exempt bonds issued by these institutions to finance new capital expenditures.

To learn more about other Federal financial aid programs, check out the [Student Guide](#) on the [Office of Student Financial Assistance Programs](#) web site.

[Department of Education](#)
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