

Table 1: Summary of Education Exclusions, Deductions, and Credits

Incentive	Tax Benefit	Higher Education Expenses Covered	Drawbacks
Exclusions from Income			
Scholarships	Scholarships generally are not included in the students' income if the student is a candidate for a degree at an educational institution that maintains a regular faculty, offers a curriculum, and has a regularly enrolled body of students.	Tuition and fees, but not room and board.	Amounts received for room and board are taxable. Amounts can be taxable if the scholarship is tied to past, present, or future performance of services by the parent or student.
Qualified Tuition Plans	Up to \$235,000 or more can be contributed to a tax-deferred account per beneficiary. If not used for education, distributions of earnings are subject to a 10% penalty. Can be rolled over to other beneficiaries.	Tuition, fees, books, supplies, equipment, room, and board. Tuition and fees of up to \$10,000 annually for kindergarten through grade 12 are allowed. Student loan repayments of up to \$10,000 during an individual's lifetime.	Plan rules are different from state to state.
Coverdell Education Savings Account	Up to \$2,000 per year can be contributed to a tax-free account. Limited to \$2,000 per beneficiary (child). Not taxable when used for beneficiary's education expenses. If not, then subject to additional 10% penalty. Can be rolled over to other beneficiaries.	Tuition, fees, books, supplies, equipment, room, and board. Also, qualified elementary and secondary education expenses, such as tuition, fees, academic tutoring, special needs services, and computers or internet access fees during any school years of the beneficiary.	Phased out for single taxpayers from \$95,000 to \$110,000 of AGI and for joint filers from \$190,000 to \$220,000 of AGI.
Educational Savings Bonds	Interest earnings can be withdrawn tax-free if used for education.	Same as American opportunity tax credit, but bond owner must be original owner and have been at least age 24 when bond was bought.	For 2024, phased out for single taxpayers from \$96,800 to \$111,800 (\$91,850 to \$106,850 in 2023) of AGI and for joint filers from \$145,200 to \$175,200 (\$137,800 to \$167,800) of AGI.
Employer Tuition Assistance Plans	Up to \$5,250 of education expenses reimbursed by an employer may be excluded as long as the education is not necessary to meet the minimum education expenses for your business and does not qualify you for a new trade or business.	Tuition, books, supplies, and equipment. Student loan payments reimbursed before 1/1/2026.	Cannot be used for room, board, or transportation expenses.
Employer Working Condition Fringe Benefit	Employer reimbursements of business expenses are not included in income. Job-related education expenses can be paid and deducted by an employer but not included in the employee's income.	Tuition, fees, books, supplies, equipment, transportation, room, and board.	It is difficult for undergraduate courses to meet these conditions.
Dependent Care Assistance Plans	Up to \$5,000 can be excluded each year for the care of dependent children under the age of 13 and physically or mentally disabled dependents who live with you over half the year.	Expenses include preschool, before-school and after-school programs, summer camps, and adult day care.	Account funds must be used each year. For married couples, the earnings of the lower earning spouse must exceed the \$3,000/\$6,000 thresholds unless the spouse is disabled or a full-time student.
Roth IRA Account Distributions	Nondeductible contributions up to \$7,000 (\$8,000 if 50 or over), tax-deferred investment income, but tax-free income if the account has been open five years and distributions are after age 59 ½, death, disability, or first-time home purchase.	Already-taxed contributions may be withdrawn tax-free and 10% penalty is avoided on distributions of earnings for college tuition and fees, but not room and board.	Contributions are allowed for earned income and are phased out with AGI between \$138,000–\$153,000 (\$218,000–\$228,000 if married filing jointly).