

**Table 1: Summary of Education Exclusions, Deductions, and Credits (continued)**

Incentive	Tax Benefit	Higher Education Expenses Covered	Drawbacks
<b>Tax Deductions</b>			
Traditional IRA Account Distributions	Deductible contributions up to \$7,000 (\$8,000 if 50 or over), tax-deferred investment income, but ordinary income and possible penalty on distributions.	10% penalty is avoided on distributions for college tuition and fees, but not room and board.	Deductions are allowed for earned income and are phased out for contributors covered under other retirement plans with AGI between \$77,000–\$87,000 (\$123,000–\$143,000 if married filing jointly).
Interest on Education Loans	Up to a \$2,500 above-the-line deduction for interest on student loans.	Tuition, fees, books, supplies, equipment, room, and board.	Phased out for single taxpayers from \$80,000 to \$95,000 (\$75,000 to \$90,000 in 2023) of AGI and for joint filers from \$165,000 to \$195,000 (\$155,000 to \$185,000 in 2023) of AGI.
Business-Related Education Deduction	Education expenses are deductible if they maintain or improve existing skills required in the present job or meet the express requirements of the employer or the requirements imposed by law to retain employment status. The expenses are not deductible if they are required to meet the minimum education standards for the taxpayer's job or qualify the taxpayer for a new trade or business.	Tuition, fees, books, supplies, equipment, transportation, room, and board.	It is difficult for undergraduate courses to meet these conditions.
<b>Tax Credits</b>			
American Opportunity Tax Credit	Credit of \$2,500 per student for each of the first four years of postsecondary education. Credit is 100% of first \$2,000 of expenses and 25% of second \$2,000 of expenses. If the credit exceeds the tax liability, up to 40% of the credit may be refundable.	Tuition and related expenses of taxpayer, taxpayer's spouse, or taxpayer's dependent. Not room, board, student activity fees, athletic fees, insurance expenses, or transportation expenses. Books and course materials are covered.	For 2023 and 2024, phased out for single taxpayers from \$80,000 to \$90,000 (\$160,000 to \$180,000 for joint filers).
Lifetime Learning Credit	Credit of 20% of up to \$10,000 of higher education expenses paid by the taxpayer. Cannot be used in year American opportunity credit is claimed.	Same as American opportunity tax credit except books and course materials must be purchased from the institution as a condition of enrollment or attendance.	For 2023 and 2024, phased out for single taxpayers from \$80,000 to \$90,000 (\$160,000 to \$180,000 for joint filers).
Child and Dependent Care Credit	Credit of 20–35% of \$3,000 (\$6,000) of qualifying care expenses for 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.	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.