BACKGROUND AND DATA WITH RESPECT TO DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES (Section 222)

Prepared by the Staff
of the
JOINT COMMITTEE ON TAXATION
April 2019

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DESCRIPTION AND ANALYSIS OF THE DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES

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DEDUCTION FOR QUALIFIED TUITION AND RELATED EXPENSES
(Section 222)

Description of Provision

Under section 222, an individual is allowed an above-the-line deduction for qualified tuition and related expenses for higher education paid by the individual during the taxable year. The term qualified tuition and related expenses is defined in the same manner as for the American Opportunity and Lifetime Learning credits, and includes tuition and fees required for the enrollment or attendance by the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction for a personal exemption,[1] at an eligible institution of higher education for courses of instruction of such individual at such institution.[2] The expenses must be in connection with enrollment at an institution of higher education during the taxable year, or with an academic term beginning during the taxable year or during the first three months of the next taxable year. The deduction is not available for tuition and related expenses paid for elementary or secondary education.

The maximum deduction is $4,000 for an individual whose adjusted gross income for the taxable year does not exceed $65,000 ($130,000 in the case of a joint return), or $2,000 for individuals whose adjusted gross income does not exceed $80,000 ($160,000 in the case of a joint return). Neither the maximum deduction amounts nor the phaseout thresholds are indexed for inflation. No deduction is allowed for an individual whose adjusted gross income exceeds the relevant limitations, for a married individual who does not file a joint return, or for an individual with respect to whom a personal exemption deduction is allowable to another taxpayer for the taxable year. The deduction is not available for taxable years beginning after December 31, 2017.

The amount of qualified tuition and related expenses must be reduced by certain scholarships, educational assistance allowances, and other amounts paid for the benefit of such individual,[3] and by the amount of such expenses taken into account for purposes of determining any exclusion from gross income of: (1) income from certain U.S. Savings Bonds used to pay higher education tuition and fees; and (2) income from a Coverdell education savings account.[4] Additionally, such expenses must be reduced by the earnings portion (but not the return of principal) of distributions from a qualified tuition program if an exclusion under section 529 is claimed with respect to expenses eligible for a qualified tuition deduction. No deduction is

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[1] Notwithstanding that the exemption amount is zero for taxable years beginning after December 31, 2017, and before January 1, 2026, the reduction of the exemption amount to zero is not taken into account in determining whether a deduction for a personal exemption is still allowed or allowable. Sec. 151(d)(5)(B).

[2] The deduction generally is not available for expenses with respect to a course of education involving sports, games, or hobbies, and is not available for student activity fees, athletic fees, insurance expenses, or other expenses unrelated to an individual's academic course of instruction. Secs. 222(d)(1) and 25A(f).

[3] Secs. 222(d)(1) and 25A(g)(2).

[4] Sec. 222(c). These reductions are the same as those that apply to the American Opportunity and Lifetime Learning credits.

allowed for any expense for which a deduction is otherwise allowed or with respect to an individual for whom an American Opportunity credit or Lifetime Learning credit is elected for such taxable year.

Legislative Background

The deduction for tuition and fees was added to the Code in the Economic Growth and Tax Relief Reconciliation Act of 2001,[5] and at that time it was set to expire for taxable years beginning after December 31, 2005. It has since been extended seven times, most recently by the Bipartisan Budget Act of 2018.[6]

Description of section 222 as enacted in 2001

By the terms of section 222 as enacted, for taxable years 2002 and 2003 the maximum deduction was $3,000, and was available only for those individuals whose adjusted gross income for the taxable year did not exceed $65,000 ($130,000 in the case of a joint return).[7] For taxable years beginning after 2003, the parameters of the tuition deduction, (*i.e*., the maximum deduction amounts and the phaseout ranges), are identical to what is described on the previous page; they have gone largely unchanged since its enactment in 2001. In evaluating the present-law deduction for tuition and fees, it may be useful to understand the other tax benefits for tuition and fees as they existed at the time of its enactment.

Other education provisions existing in 2001

At the time of the enactment of section 222, the Code contained the Hope and Lifetime Learning credits, both of which still exist in the present-day Code (however the Hope credit is now known as the American Opportunity credit). At that time, the Hope credit was limited to $1,500 and was available only for the first two years of post-secondary education. The Lifetime Learning credit was limited to a maximum of $1,000 per student. Both credits phased out for taxpayers with a modified adjusted gross income in excess of $41,000 ($82,000 in the case of a joint return) and were fully phased out by modified adjusted gross income of $51,000 ($102,000 in the case of a joint return).

While the deduction for tuition and fees has remained largely unchanged, the Hope and Lifetime Learning credits have undergone significant modifications since 2001.

Changes to the Hope credit since 2001

In 2009, the Hope credit was expanded into what is now known as the American Opportunity credit. Although at the time this expansion was temporary, it became a permanent

[5] Pub. L. No. 107-16.

[6] Pub. L. No. 115-123.

[7] Sec. 222(b)(2)(A) (2002).

upon the enactment of the PATH Act.[8] The American Opportunity credit increased from two to four the number of years of postsecondary education for which a taxpayer could claim the credit (thus expanding the credit's availability to the first four years of attendance at a postsecondary school). The American Opportunity credit increased the maximum value of the Hope credit from $1,500 to $2,500, and made 40 percent of the credit refundable. The American Opportunity credit added course materials to the list of expenses eligible for the credit. And importantly, the American Opportunity credit significantly increased the phaseout range of the credit, such that the credit begins to phase out for taxpayers with a modified adjusted gross income in excess of $80,000 ($160,000 in the case of a joint return) and is fully phased out by modified adjusted gross income of $90,000 ($180,000 in the case of a joint return). The phaseout is not indexed for inflation.

Changes to the Lifetime Learning credit since 2001

The maximum value of the Lifetime Learning credit, by its terms as enacted,[9] increased from $1,000 to $2,000 beginning in 2003. Additionally, because the phaseout range of the credit is adjusted for inflation, in 2019 the credit begins to phase out for taxpayers with a modified adjusted gross income in excess of $58,000 ($116,000 in the case of a joint return) and is fully phased out by modified adjusted gross income of $68,000 ($136,000 in the case of a joint return).

Data Related to the Deduction for Tuition and Fees

The Joint Committee staff estimates that the recent one-year extension of the deduction for tuition and fees reduced governmental receipts by $357 million.[10] Below we provide a breakdown of our estimate of the number of claimants, and the amount of the tuition deduction claimed, by the adjusted gross income of the claimants, for tax year 2017.

[8] Pub. L. No. 113-114 (2015).

[9] See section 25A(c)(1).

[10] Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the "Bipartisan Budget Act of 2018,"* JCX-4-18, February 2018.

Table 1.–Estimated Distribution of Claimants of the Deduction for Tuition and Fees, and Total Tuition and Fees Deductions Claimed, 2017

Adjusted Gross Income	Returns (thousands)	Tuition Deduction (millions $)
Below $10,000	381	1,255
$10,000 to $20,000	110	307
$20,000 to $30,000	77	191
$30,000 to $40,000	60	133
$40,000 to $50,000	36	70
$50,000 to $75,000	322	561
$75,000 to $100,000	60	89
$100,000 to $200,000	650	1,151
$200,000 and over	---	---
Total	**1,696**	**3,757**

Table 2.−Estimated Distribution of Claimants of the Deduction for Tuition and Fees, and Total Tuition and Fees Deductions Claimed, By Filing Status 2017

Adjusted Gross Income	Single		Joint		Head of Household	
	Returns (thousands)	Tuition Deduction (Millions $)	Returns (thousands)	Tuition Deduction (Millions $)	Returns (thousands)	Tuition Deduction (Millions $)
Below $10,000	325	1,083	19	63	37	111
$10,000 to $20,000	39	100	35	115	36	92
$20,000 to $30,000	13	37	34	93	29	60
$30,000 to $40,000	6	9	26	59	27	64
$40,000 to $50,000	17	28	14	31	6	11
$50,000 to $75,000	186	336	10	23	106	170
$75,000 to $100,000	19	22	12	27	25	34
$100,000 to $200,000	---	---	650	1,151	---	---
$200,000 and over	---	---	---	---	---	---
Total	**605**	**1,615**	**800**	**1,562**	**266**	**542**

[1] Totals from this table do not add to the totals in Table 1, because this table omits the small number of claimants from married taxpayers filing separate returns.

One oddity of these tables is the large number of taxpayers claiming the tuition deduction with adjusted gross income of less than $10,000. The IRS data reports only the tuition deductions claimed by taxpayers on their return of tax, without regard to whether those taxpayers received an economic benefit from the deduction. Because the deduction for tuition and fees is an above-the-line deduction, it will be for many taxpayers the first adjustment to gross income that those taxpayers claim. That is to say, although a single taxpayer with $9,000 in gross income may have had their 2017 tax liability fully offset by the standard deduction and personal exemption, both of those items reduce gross income to arrive at taxable income after the taxpayer has claimed the deduction for tuition and fees. Thus, while the taxpayer appears in the IRS data as having claimed the deduction for tuition and fees, they are not actually benefiting from the deduction.[11]

Analysis

Because there are multiple tax benefits available for tuition and fees paid by the taxpayer, it is worth exploring whether the tuition deduction is unnecessarily duplicative, or, even if it is not, if its presence in the Code creates undue complexity.

Do any taxpayers benefit from the deduction for tuition and fees?

As described above, we estimate that in 2017 approximately 1.7 million taxpayers claimed the deduction for tuition and fees, with total deductions claimed of approximately $3.8 billion. Because a taxpayer may claim only one of the deduction for tuition and fees, the

[11] The Joint Committee's individual tax model accounts for this, and does not attribute a revenue loss to the deduction for tuition and fees under such a circumstance.

American Opportunity credit, or the Lifetime Learning credit, one would expect a taxpayer to optimize by choosing the option that lowers the taxpayer's Federal tax liability by the greatest amount. However, it is unclear from our data whether these taxpayers were optimizing their Federal tax liability, were optimizing their overall tax liability when factoring in their State tax liability, or claimed the deduction for tuition and fees in error (the possibility of erroneous claimants is discussed in more detail in the section on complexity).

Whereas the value of a tax credit can be measured on a dollar-for-dollar basis equal to the amount of the credit (assuming the taxpayer has tax liability to offset), the value of a tax deduction is equivalent to the amount of the deduction multiplied by the taxpayer's marginal tax rate. Assuming a taxpayer pays tuition of at least $4,000 (the maximum amount that may be taken into account for purposes of the tuition deduction), one would need to know the taxpayer's marginal tax rate to determine the value of the deduction to the taxpayer. Taxpayers who are eligible to claim the maximum $4,000 deduction may not have adjusted gross income in excess of $65,000 (unmarried) or $130,000 (married). Assuming the tuition deduction were extended into 2019, and assuming that these taxpayers claimed the standard deduction on their returns, the taxpayers would be in the 22-percent bracket. This means that the tuition deduction's maximum value is $880, substantially less than the $2,500 maximum value of the American Opportunity credit or the $2,000 maximum value of the Lifetime Learning credit.

Notwithstanding those maximum amounts, at times the deduction for tuition and fees may be the optimal choice for certain taxpayers. To better understand this, it is best to approach the taxpayer's decision-making process from the perspective of taxpayers paying a) for the first four years of postsecondary education and b) for postsecondary education beyond that time.

First four years of postsecondary education

A taxpayer who is paying tuition and fees with respect to a student's first four years of postsecondary education will always optimize by claiming the American Opportunity credit in lieu of the deduction for tuition and fees or the Lifetime Learning credit. This is because at any level of tuition paid, the maximum value of the American Opportunity credit exceeds the maximum value of the tuition deduction (or the Lifetime Learning credit). For instance, if a taxpayer paid $1,000 in tuition, the American Opportunity credit would be worth $1,000,[12] while the tuition deduction would be worth only $220 (22-percent of $1,000), and the Lifetime Learning credit would be worth $200 (20-percent of $1,000). If a taxpayer paid $4,000 in tuition, the American Opportunity credit would be worth $2,500, well in excess of the tuition deduction, worth $880, and the Lifetime Learning credit, worth $800.

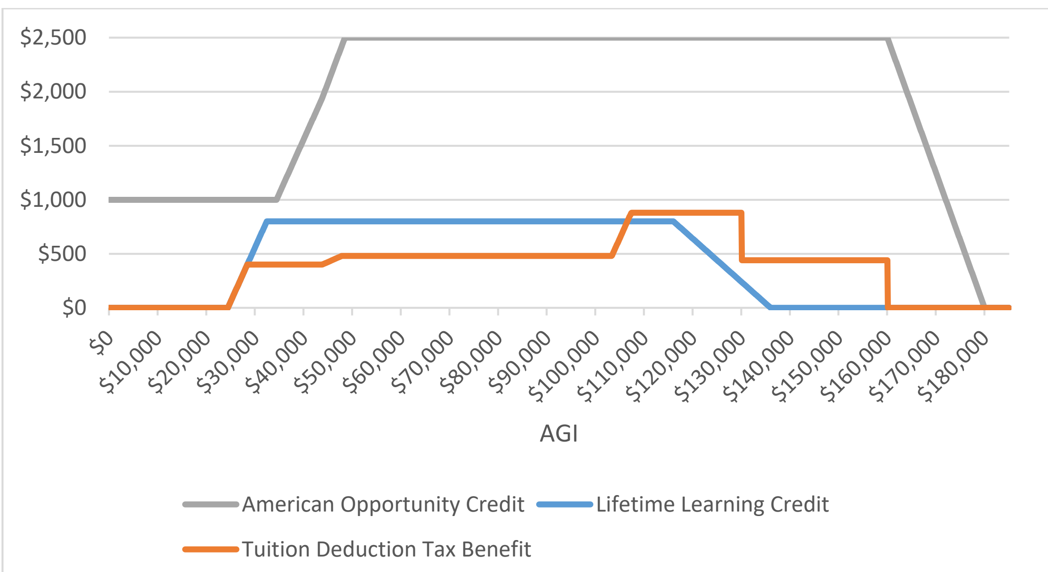
Additionally, because the phaseout thresholds of the American Opportunity credit are higher than those of the tuition deduction, no taxpayer able to claim the tuition deduction is prevented from claiming the American Opportunity credit because of the adjusted gross income phaseouts.

[12] The credit computation is 100-percent of the first $2,000 in qualified tuition and related expenses, and 25-percent of the next $2,000 in qualified tuition and related expenses.

The two figures below demonstrate that for all taxpayers paying tuition with respect to the first four years of postsecondary education, claiming the American Opportunity credit is always the superior option (in some cases, where both credits are fully offsetting tax liability, the benefit of the Lifetime Learning credit is equivalent to that of the American Opportunity credit). These graphs reflect 2019 law, accounting for the reduced tax rates and increased standard deduction applicable to that year.[13] The tax benefit reflected in the graphs assumes that the taxpayer is claiming the standard deduction, and has no other reductions to tax liability (such as an above-the-line deduction for a contribution to a traditional IRA, for instance), other than the tuition tax benefit.

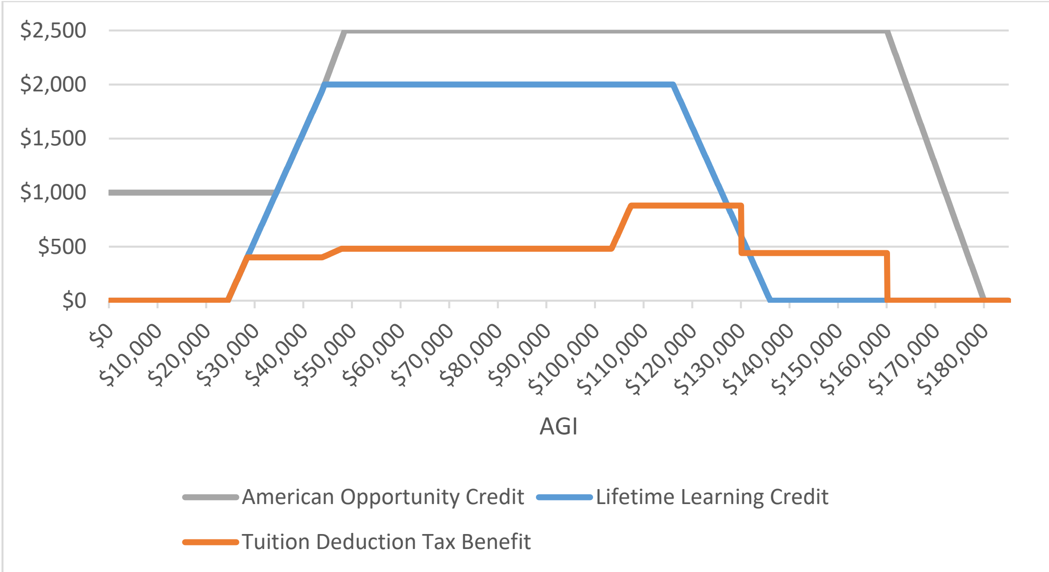
The graphs present married taxpayers who are paying $4,000 in tuition (in the case of Figure 1) and $10,000 in tuition (in the case of Figure 2). In neither case does the tax benefit of the Lifetime Learning credit or the deduction for tuition and fees exceed the value of the American Opportunity credit, and in fact, at every point on both graphs, the value of the deduction for tuition and fees is worth less than the value of the American Opportunity credit.

Figure 1.–Comparison of the Tuition Tax Benefits for Taxpayers Paying Tuition for the First Four Years of Postsecondary Education, $4,000 in Tuition Payments, Married Taxpayer, 2019



[13] The phaseout thresholds of the Lifetime Learning credit have also been adjusted for inflation, to reflect 2019 values.

Figure 2.−Comparison of the Tuition Tax Benefits for Taxpayer Paying Tuition for the First Four Years of Postsecondary Education, $10,000 in Tuition Payments, Married Taxpayer, 2019



<u>Postsecondary education beyond the first four years</u>

After a student has attended college for four years, the American Opportunity credit may no longer be claimed for tuition paid on behalf of that student. When a taxpayer is no longer eligible to claim the American Opportunity credit, the analysis becomes a bit more involved. At that point, the taxpayer has a choice between claiming the deduction for tuition and fees or the Lifetime Learning credit. The Lifetime Learning credit is a non-refundable credit equal to 20 percent of the amount of tuition paid, up to $10,000.

The graphs below illustrate the decision-making process a single taxpayer faces when choosing between the Lifetime Learning credit and the tuition deduction. Because these graphs pertain to amounts paid for beyond the first four years of postsecondary education, commonly individuals who claim the deduction for tuition and fees are single individuals who are pursuing graduate study (as reported in Table 2 above, roughly half of the claimants of the tuition and fees deduction are unmarried).[14] Figure 3 compares the tax benefits of the Lifetime Learning credit against the deduction for tuition and fees in the case of an unmarried taxpayer paying $4,000 in tuition (the maximum amount of tuition that may be taken into account for purposes of the deduction). Figure 4 compares the benefits of the two provisions when that taxpayer pays in excess of $10,000 in tuition (the maximum amount of tuition for purposes of the Lifetime Learning credit).

[14] Figures 1 and 2 above present the results for married individuals, and graphically, the comparison between the Lifetime Learning credit and the deduction for tuition and fees found in those figures is identical (other than doubling the values) to the information presented for single taxpayers in Figures 3 and 4.

The tax benefit reflected in the graphs assumes that the taxpayer is claiming the standard deduction, and has no other reductions to tax liability (such as an above-the-line deduction for a contribution to a traditional IRA), other than the tuition tax benefit. Thus, the graphs are somewhat stylized, but nonetheless are useful to demonstrate the interplay between the Lifetime Learning credit and the deduction for tuition and fees.

Figure 3.−Comparison of the Tuition Tax Benefits for Taxpayer Paying Tuition Beyond Four Years of Postsecondary Education, $4,000 in Tuition Payments, Single Taxpayer, 2019

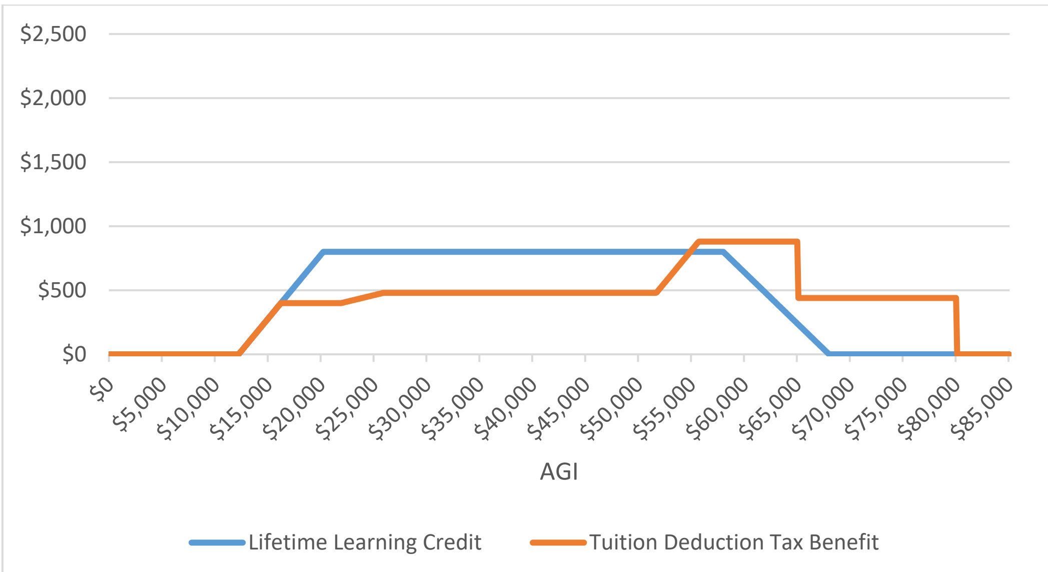
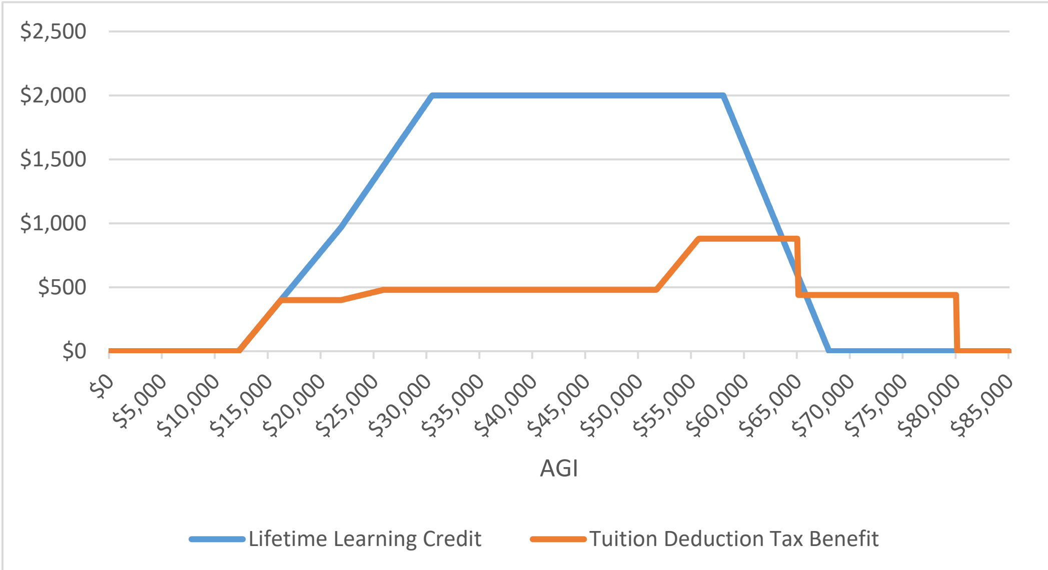


Figure 4.−Comparison of the Tuition Tax Benefits for Taxpayer Paying Tuition Beyond Four Years of Postsecondary Education, $10,000 in Tuition Payments, Single Taxpayer, 2019



In both graphs, the flat portion at the lowest levels of adjusted gross income represent areas where the taxpayer does not have tax liability, and thus receives no benefit from either of the provisions (as neither have refundability features). As adjusted gross income rises, the tax benefit rises as the benefits from both provisions serve to entirely eliminate the taxpayer's tax liability; the rising graphs indicate that the taxpayer's tax liability is rising, serving as an upper bound.

The tuition deduction benefit plateaus, then rises slightly and plateaus again, and then again. This reflects the changes in the hypothetical taxpayer's marginal tax rate, as adjusted gross income rises. As discussed above, the higher a taxpayer's marginal tax rate, the greater the benefit of the deduction. The sharp drop in the benefit of the tuition deduction at $65,000 of adjusted gross income represents the reduction in the maximum amount of tuition that can be taken into account falling from $4,000 to $2,000 at this point. Similarly, at adjusted gross income in excess of $80,000 the graph drops to zero, as the tuition deduction is no longer permitted.

In both graphs, the Lifetime Learning credit reaches a plateau of 20-percent of the tuition paid, and then phases out over $10,000. Note that the result of phasing out the credit over a set range (rather than at a set rate) has the effect of creating a steeper phaseout line for the taxpayer paying $10,000 in tuition. The effect of phasing out the benefit over a specified range is to create a higher effective marginal tax rate for those who are eligible for a higher credit.

The graphs demonstrate that for certain taxpayers who have tuition expenses for postsecondary education beyond the first four years, the benefit of the tuition deduction may exceed the benefit of the Lifetime Learning credit. Under the parameters established in these examples, this occurs beyond $54,900 of adjusted gross income for the $4,000 tuition payor and $63,600 of adjusted gross income for the $10,000 tuition payor.

Note that inflation adjustments will alter this analysis from year to year. Recall that the Lifetime Learning credit phaseouts are adjusted for inflation, while the tuition deduction's parameters are not. Thus, inflation adjustments will cause the phaseout threshold of the Lifetime Learning credit to increase (which would have the effect of lengthening the plateau of the Lifetime Learning credit in the graphs). Additionally, inflation adjustments apply to the tax brackets. The expansion of the underlying tax brackets will have the effect of increasing the adjusted gross income levels at which a taxpayer will receive the maximum benefit of the tuition deduction (graphically, this would have the effect of shortening, and eventually eliminating, the peak plateau of the tuition deduction).[15]

<u>Does the tuition deduction create complexity</u>?

As we have described, a taxpayer may claim up to three distinct tax benefits for out-of-pocket tuition costs[16] for any taxable year in which the taxpayer has paid tuition and fees for postsecondary education. As described above, in the first four years of postsecondary education, it is always more beneficial for a taxpayer to claim the American Opportunity credit rather than the deduction for tuition and fees. However, it is not clear that all taxpayers understand this. Unsophisticated taxpayers may not understand the difference between a deduction and a credit; because $4,000 is a larger number than $2,500, taxpayers may assume that the $4,000 deduction is worth more than the credit.[17]

Similarly, even if taxpayers understand the basic distinction between deductions and credits, it may not be readily obvious to a taxpayer what the benefit of the deduction is, because a taxpayer would need to know his or her marginal tax rate. This is not always easy to know, especially if the taxpayer is at the cusp of a rate bracket (represented by the steep inflection points in the graph).

Of course, even if the taxpayer is fully aware of the above, the different provisions require the taxpayer to perform these calculations in the process of computing their taxes. This takes added time, or may add cost if a taxpayer decides to make use of a tax preparer rather than risk making the incorrect decision.

Indeed, the information shown in Tables 1 and 2 above suggests that some taxpayers are claiming the deduction for tuition and fees in error. As described in detail above, in many circumstances the value of the tax credits outweigh the value of the deduction for tuition and fees. By and large, the deduction for tuition and fees is the superior option only for individuals

[15] Viewed graphically, the left edge of the plateau will move to the right, while the right edge of the plateau will remain fixed. Eventually, the plateau will disappear altogether.

[16] There are many other tax benefits associated with paying tuition for higher education, such as tax-advantaged savings accounts (529 plans, Coverdell ESAs, etc.), education savings bonds, the deduction for interest on student loans, and the exclusion for employer-provided tuition assistance.

[17] In Pub. 970, the IRS informs taxpayers only that "[y]ou can choose the education benefit that will give you the lowest tax. You may want to compare the tuition and fees deduction to the education credits. See chapter 2 (American opportunity credit) and chapter 3 (lifetime learning credit) for more information on the education credits." IRS Pub. 970 (2016) at 37.

who (a) are paying for postsecondary education beyond the first four years of college, and (b) have a marginal tax rate that is greater than 20 percent (the Lifetime Learning credit rate). Even if both of these conditions are met, they are only necessary but not sufficient: an individual with tuition expenses in excess of the $4,000 will likely find it beneficial to claim the Lifetime Learning credit, as a taxpayer may claim up to $10,000 in tuition expenses for purposes of that credit.[18]

The presence of many single claimants with adjusted gross income below $50,000 suggests that some claimants may have claimed the deduction for tuition and fees when it was less favorable than the other two options.[19] Table 2 uses adjusted gross income as the measure of the taxpayer's income, which measures income prior to application of the standard deduction and personal exemptions. If we assume that a single taxpayer claims the standard deduction, adjusted gross income is reduced by $10,400 to reach taxable income. In 2017, the bracket breakpoint between the 15- and 25-percent rates was $37,950. Working backwards, only taxpayers with adjusted gross income of $48,350 or higher would be deducting the entirety of their tuition payments at the 25-percent rate. Yet, even excluding the filers between $0 and $10,000 of adjusted gross income (which as discussed above, is likely a reporting anomaly), there are roughly 75,000 returns of single taxpayers that claim the deduction notwithstanding that their adjusted gross income is under $50,000.

Looking at joint filers reveals a similar pattern. In 2017, the bracket breakpoint between the 15- and 25-percent rates was $75,950. With a standard deduction and two personal exemptions, these taxpayers would not pay tax at a 25-percent rate unless their adjusted gross income exceeded $96,750. Yet, excluding those at $20,000 or below, we expect approximately 96,000 taxpayers whose adjusted gross income is less than $100,000 to claim the deduction rather than the credit. This again indicates that taxpayers are not optimizing their choice between claiming the deduction or claiming either of the credits.

If individuals did in fact make a sub-optimal choice by claiming the deduction for tuition and fees in 2017, the 2017 tax reform bill may serve to exacerbate this error should they make the same mistake in 2019, if the tuition deduction is extended beyond its current expiration period. Public Law 115-97 reduced marginal tax rates (and expanded the length of the tax brackets), meaning that taxpayers who in 2017 were claiming the deduction at a 15-percent rate would likely be claiming that deduction at a 12-percent rate in 2019, while taxpayers claiming the deduction at a 25-percent rate in 2017 would likely be claiming the deduction at a 22-percent rate in 2019. Thus, from 2018 through 2025, the value of the deduction has been reduced, while the value of the credits remains unchanged.

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[18] The threshold at which it is more beneficial to claim the Lifetime Learning credit depends on the marginal tax rate the taxpayer faces. In the case of 2017, in which a taxpayer making a decision at the margin paid a 25-percent rate of tax, a taxpayer who paid more than $5,000 in tuition would have been better off claiming the Lifetime Learning credit. For 2019, with a marginal rate of 22 percent, a taxpayer who paid more than $4,400 in tuition would have been better off claiming the Lifetime Learning credit.

[19] Tax preparation software usually suggests that taxpayers claim the optimal benefit, provided that user input is correct. However, many taxpayers prepare their returns without the use of a paid preparer or tax preparation software.

The role of State taxes

It is possible that some taxpayers may claim the deduction for tuition and fees, rather than either of the credits, because the deduction may decrease that taxpayer's State tax liability such that it is advantageous to claim the deduction notwithstanding a lower Federal tax benefit. Twenty-nine States and the District of Columbia use Federal adjusted gross income as the starting point in computing their State tax liability, and another six States use Federal taxable income as their starting point.[20] In these States, unless the tuition deduction is specifically added back to income,[21] taxpayers claiming the deduction will receive an additional tax benefit in an amount of the deduction amount times their marginal State tax rate.

Policymakers may want to take this aspect of the deduction for tuition and fees into consideration when evaluating its merits.

Eliminating the deduction while holding taxpayers harmless

Some Members of Congress may desire to let the deduction for tuition and fees remain expired, out of concerns for complexity described above, but want to continue to extend an equivalent tax benefit to those who have in the past benefited most from the deduction. Although at some point the inflation adjustments will cause the Lifetime Learning credit to dominate the tuition deduction for all taxpayers, given projected inflation rates, that day remains far off.

A simple approach to holding taxpayers harmless would be to increase the phaseout threshold of the Lifetime Learning credit above its current levels, such that taxpayers earning up to $80,000 of adjusted gross income ($160,000 in the case of taxpayers filing a joint return) would be able to benefit from the credit. For instance, increasing the phaseout threshold of the Lifetime Learning credit to match that of the American Opportunity credit would achieve this result. Below is the Joint Committee staff's estimate of a proposal that would increase the Lifetime Learning credit phaseout threshold to match the American Opportunity credit's threshold.[22]

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[20] The Tax Foundation, *Tax Reform Moves To The States: Revenue Implications and Reform Opportunities Following Federal Tax Reform*. Available at https://taxfoundation.org/state-conformity-federal-tax-reform/.

[21] The Joint Committee staff has not undertaken a comprehensive review of all States to determine which add the deduction back into their tax base. One example of a State that does so is Maryland.

[22] The declining values reflect the fact that the American Opportunity credit's phaseout threshold are not indexed to inflation.

Fiscal Years [Billions of Dollars]												
2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-24	2019-29
-0.2	-0.8	-0.8	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-3.7	-6.2

Note: Details do not add to totals due to rounding.

Technically, this approach would not fully hold harmless all taxpayers. If the tuition deduction were extended, taxpayers would claim the tuition deduction at a 22-percent rate, whereas the Lifetime Learning credit is claimed at a 20-percent rate. Increasing the rate of the Lifetime Learning credit by two percentage points (or more) would achieve the result of holding all taxpayers harmless. Of course, in expanding the Lifetime Learning credit in this fashion, taxpayers who were already optimizing their tax benefit by claiming the Lifetime Learning credit would receive a "windfall" benefit through the increased rate of credit.

Below, for your information, is the Joint Committee's estimate of the revenue effects of increasing the phaseout range for the Lifetime Learning credit up to the phaseout range of the American Opportunity credit, as well as increasing the credit percentage of the Lifetime Learning credit to 25 percent.

Fiscal Years [Billions of Dollars]												
2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-24	2019-29
-0.3	-1.5	-1.4	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2	-1.1	-1.1	-7.2	-13.1

Note: Details do not add to totals due to rounding.