Back-to-School: Education Tax Incentives Refresher

Wealth Planning | Tax Planning

With school starting up for another semester, now is the perfect time to brush up on your knowledge of education tax incentives. The following federal government incentives are summarized below: tax credits, deductions, and savings plans.

Tax Credits

Tax credits are dollar-for-dollar reductions of your tax liability that can be refundable or nonrefundable. A refundable credit is one you can still receive even if you have no tax liability for the year. The following tax credits are available for post-secondary education:

	American Opportunity Credit	Lifetime Learning Credit
Maximum annual credit?	$2,500 per student	$2,000 per tax return
How is amount determined?	100% of first $2,000 of expenses plus 25% of the next $2,000 of expenses	20% of up to $10,000 of expenses
Whose expenses qualify?	Taxpayer, spouse, dependent	Taxpayer, spouse, dependent
What expenses qualify?	Tuition, fees, books, supplies, and equipment Must be at least a half-time student enrolled in a degree program	Tuition, fees, books, supplies, and equipment Must be paid directly to the institution providing the course
Number of years allowed?	First four years	No limit
Is the credit refundable?	40% of the credit is refundable	No
Is credit reduced when modified adjusted gross income (MAGI) exceeds a threshold?	Yes, when MAGI exceeds $80,000 ($160,000 for joint filers)	Yes, when MAGI exceeds $80,000 ($160,000 for joint filers)

Tax Deductions

Tax deductions reduce your taxable income. The following tax deduction is available for post-secondary education expenses:

	Student Loan Interest Deduction
Maximum annual deduction?	$2,500 per return
Whose expenses qualify?	Taxpayer, spouse, dependent
What expenses qualify?	Interest paid on loans used for tuition, fees, books, supplies, equipment, room & board, and transportation Must be at least a half-time student enrolled in a degree program at the time the eligible expenses were incurred
Number of years allowed?	No limit
Is deduction reduced when MAGI exceeds a threshold?	Yes, when MAGI exceeds $85,000 ($175,000 for joint filers) for 2026 deductions

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Savings Plans

Savings plans are accounts funded by nondeductible contributions that allow earnings to grow tax-free, allow distributions to be tax-free, or both. The following savings plans are available to help investors pay for education expenses:

	Qualified Tuition Program (529 Savings Plan)	Coverdell Education Savings Account
What is the tax benefit?	Earnings are tax-deferred, distributions are tax-free when used for qualified expenses, and some states (not federal) offer a deduction or credit for contributions	Earnings are tax-deferred and distributions are tax-free when used for qualified expenses
Annual contribution limit?	No limit; however, some 529 plans have an account balance limit that would restrict future contributions	$2,000 per student under age 18
Do gift tax rules apply to contributions?	Yes. Contributions are considered a gift to the beneficiary. Contributions over the annual gift exclusion ($19,000 in 2026) would require the filing of a gift tax return. A special rule allows taxpayers to treat 529 plan contributions made in one tax year as contributed over a five-year period for annual gift exclusion purposes	Yes. Contributions are considered a gift to the beneficiary. Contributions over the annual gift exclusion ($19,000 in 2026) would require the filing of a gift tax return.
What expenses qualify for post-secondary education?	Tuition, fees, books, supplies, equipment, room & board, and expenses for certain apprenticeship programs Up to $10,000 (lifetime) each for the beneficiary or a sibling for payment of student loan principal and interest After July 4, 2025, expenses related to obtaining or maintaining recognized postsecondary credentials including tuition, fees, books, supplies, and equipment	Tuition, fees, books, supplies, equipment, and room & board
What expenses qualify for K-12 education?	Up to $20,000 per year of tuition (increased from $10,000 starting in 2026) After July 4 2025, books, materials, tutoring, certain testing or exam fees, and educational therapies	Tuition, fees, books, supplies, equipment, tutoring, uniforms, transportation, and room & board
When must account be distributed?	No time set by tax law, but 529 plan may set a requirement; beneficiary may be changed to another family member, owner may withdraw funds, or unused funds may be rolled over to a Roth IRA for the beneficiary subject to certain requirements	By age 30; beneficiary may be changed to another family member if current beneficiary will not use the funds
Is allowable contribution amount reduced when MAGI exceeds a threshold?	No	Yes, when MAGI exceeds $95,000 ($190,000 for joint filers)

In general, using a savings plan creates the greatest tax benefit, but it also requires the greatest amount of future planning. Tax credits and deductions also provide tax benefits, but in many cases these can be phased out by income limitations. In some cases, these tax-saving instruments may be used in conjunction with one another to create even greater benefit. However, you cannot claim more than one tax benefit for the same expense. For a complete list of tax benefits for education and detailed explanations of each, refer to IRS Publication 970 at www.irs.gov.

Investors should consider carefully the investment objectives, risks, and charges and expenses associated with a 529 plan before investing or sending money. The official program offering statement, which includes information on municipal fund securities, is available from your Financial Advisor and should be read carefully before investing. The value of a 529 account may fluctuate, and there is no guarantee that any investment portfolio will achieve the stated goal. Your investment may be worth more or less than its original value.

Non-qualified withdrawals are taxable as ordinary income to the extent of earnings and may also be subject to a 10% federal income tax penalty. State tax treatment may differ. This article is meant to provide a general understanding of the tax topic above.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.

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