

**Abstract:** The Consolidated Appropriations Act, signed into law late last year, contains a multitude of provisions that may affect individuals. This article discusses how the law affects college education funding; specifically, student loans and tax credits.

## **How the CAA affects education funding**

The Consolidated Appropriations Act (CAA), signed into law late last year, contains a multitude of provisions that may affect individuals. For example, if you're planning to fund a college education or in the midst of paying for one, the CAA covers two important areas:

**1. Student loans.** The CARES Act temporarily halted collections on defaulted loans, suspended loan payments and reduced the interest rate to zero through September 30, 2020. Subsequent executive branch actions extended this relief through January 31, 2021. The CAA leaves in place that expiration date.

Also under the CARES Act, employers can provide up to \$5,250 annually toward employee student loan payments on a tax-free basis before January 1, 2021. The payment can be made to the employee or the lender. The CAA extends the exclusion through 2025. The longer term may make employers more willing to offer this benefit.

**2. Tax credits.** Qualified taxpayers generally can claim an education tax break with the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC). Previously, though, the two credits were subject to different income phaseout rules, with the AOTC available at a greater modified adjusted gross income than the LLC. In addition, before the new law, there was a "higher education expense deduction" for qualified tuition and related expenses that taxpayers could opt to claim instead of the credits.

The CAA adopts a single phaseout for both the AOTC and the LLC, effective for tax years beginning after December 31, 2020. The credits will phase out beginning at \$80,000 for single filers and ending at \$90,000. For joint filers, they will begin to phase out at \$160,000 and disappear at \$180,000. The new law also repeals the higher education expense deduction. Instead, taxpayers can claim the LLC credit.

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