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## Marc A. Hebert's 'Money \$ense': College financial aid and education tax benefits

May 29, 2021

The Consolidated Appropriations Act, which was passed in December 2020, included certain college aid and education tax benefits to provide higher education opportunities to more students. Notably, it included \$22.7 billion of funding for colleges and universities and made changes to the federal financial aid application process.

For those applying for student aid, the Free Application for Federal Student Aid (FAFSA) has been simplified. The changes start with the 2023-2024 school year. The number of questions on the form has been reduced, and questions about drug convictions and Selective Service status are gone. In the past, students with prior drug convictions were not eligible for federal aid. The new changes remove this restriction.



Another change is that more income will be shielded from inclusion in the FAFSA formula. The income protection allowance has increased from \$50,000 to \$60,000, which will allow more people to qualify for a simplified needs test. The simplified needs test is a formula in which family assets do not count against need and eligibility for Pell Grants increases.

One potential downside of the changes is that the FAFSA will no longer divide a parent's consideration by the number of children currently in college. As a result, families with multiple children attending college at the same time may face reduced aid.

You will also see different terminology used on the form. The term expected family contribution (EFC) is now gone. Taking its place is the student aid index (SAI). The change will be implemented to more fully reflect what the dollars mean. The SAI will give a family an idea of how much aid they might be eligible for. The expected family contribution is being revised because the term often implied an amount that a family would pay when in reality many families ended up paying more for college. The term was also considered insulting to some people.

Another change is a new food and housing allowance within the financial aid formula. This pertains to dependent students that live at home, as many of these students contribute to paying household expenses.

The Lifetime Learning credit, which is an education tax credit worth as much as \$2,000 per year, is getting an increase in income limits for who is eligible to qualify. This change starts in 2021. Single filers with modified adjusted gross income (MAGI) below \$80,000 and married filers with MAGI below \$160,000 will qualify. For those with income between \$80,000 and \$90,000 if single and \$160,000 and \$180,000 for married filing jointly, the credit will phase out until it becomes nothing after the upper limit. To help pay for this, the qualified college tuition and fees deduction has been repealed for 2020 and beyond.

The Lifetime Learning credit can be applied to the costs for courses to acquire or improve job skills. The credit is equal to 20% of the first \$10,000 of qualified education expenses. The expenses can be for graduate, undergraduate or for professional courses to improve job skills. It should be noted that a credit is a dollar-for-dollar reduction in the tax you owe, not a reduction of the income you are taxed on. It is claimed on Form 8863, Education Credits.

The Lifetime Learning credit is just one of the tax benefits provided by the government for education. Further benefits are discussed in Publication 970, Tax Benefits for Education. This is available on the IRS website, **IRS.gov**.

As an aid for students, employers may help with student loan repayments. Employers may pay up to \$5,250 of an employee's student loans tax free. The provision will be effective for another five years.

As a final point, the bill did not contain any provisions relating to student debt forgiveness or deferral.

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