

Higher education costs continue to rise, but so do the opportunities to ease that burden with smart tax planning. Whether you're a parent paying tuition or a student managing loans, these 2025 college tax savings can help keep more money in your pocket.

## College Tax Savings

### 1. 529 Plan Contributions & Withdrawals

These state-sponsored savings plans are a cornerstone of education planning. While contributions aren't federally tax-deductible, many states offer tax benefits such as deductions or credits.

When used for qualified expenses like tuition, fees, books, and even room and board, 529 withdrawals are completely tax-free. However, tracking is essential. If you use your Plan funds for non-qualified expenses, you will owe income tax *and* a 10% penalty on the earnings portion of the withdrawal.

Example: If you withdraw \$10,000 to pay for off-campus housing, make sure your expenses don't exceed the school's published cost of attendance for housing.

**Tip:** The [IRS offers an 529 Plan FAQ](#), including contribution limits, setting up a plan, and a link to the Tax Benefits for Education Center.

### 2. American Opportunity Tax Credit (AOTC)

The [AOTC provides a tax credit](#) of up to \$2,500 per eligible student for the first four years of post-secondary education. To claim the full credit, your modified adjusted gross income (MAGI) must be \$80,000 or less (\$160,000 or less for joint filers).

- 100% of the first \$2,000 of qualified expenses
- 25% of the next \$2,000
- Up to \$1,000 of the credit is refundable

Qualifying expenses include tuition, fees, and course materials, including books and supplies.

### 3. Lifetime Learning Credit (LLC)

The [LLC offers up to \\$2,000 per return](#) for any post-secondary education, including graduate school and courses to acquire or improve job skills. There is no limit on the number of years you can claim this credit.

**Note:** Unlike the AOTC, the LLC is non-refundable, meaning it can reduce your tax to zero but won't generate a refund.

## 4. Student Loan Interest Deduction

Borrowers can deduct up to \$2,500 in student loan interest per year, even if they don't itemize deductions. This can significantly reduce taxable income.

You can claim the deduction if all the following apply:

- You paid interest on a qualified student loan in the current tax year.
- You're legally obligated to pay interest on a qualified student loan.
- Your filing status isn't married, filing separately.
- Your [MAGI is less than a specified amount](#) which is set annually; and
- Neither you nor your spouse, if filing jointly, were claimed as dependents on someone else's return.

**Tip:** Visit the [IRS Student Loan Interest Deduction page](#) for forms and FAQs.

## 5. Employer Educational Assistance Programs

Up to \$5,250 in [employer-provided educational assistance](#) can be excluded from taxable income each year. This can apply to tuition, fees, and even supplies. This applies to both undergrad and graduate-level courses.

## 6. NEW: Education Provisions from the One Big Beautiful Bill Act (OBBBA)

Signed into law on July 4, 2025, OBBBA introduces major reforms that impact students and families.

- [Expanded Pell Grant Access](#): More low-income students now qualify for Pell Grants, reducing their out-of-pocket tuition burden.
- [Trump Accounts](#): Parents of newborns receive a \$1,000 federally seeded education savings account, with optional contributions of up to \$5,000/year through 2028. Funds can be used for education, job training, or first-time home purchases.
- [Federal Credit for Private School Donations](#): Donors to [Scholarship Granting Organizations](#) (SGOs) may now receive a dollar-for-dollar federal tax credit, encouraging contributions to private school scholarship programs.
- [Student Loan Rule Changes](#): New repayment structures and borrowing caps affect how and when loans can be used and repaid.

## It isn't a one-size-fits-all approach.

Tax planning for education isn't one-size-fits-all. It depends on your income, how you're paying for school, and your long-term goals. With the changes introduced under OBBBA, now is the perfect time to revisit your plan.

### Take Action

- Review your 2025 tax strategy with a professional.
- Maximize use of 529 plans and tax credits.
- Gather receipts and documentation throughout the year.

[Schedule a college tax strategy](#) session with our team and get ahead of your 2025 tax season.