

INTERNAL REVENUE SERVICE

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The Honorable Jo Ann Davis
Member, U.S. House of Representatives
4904-B George Washington Memorial Highway
Yorktown, VA 23692

Dear Congresswoman Davis:

This letter is in response to your inquiry dated February 26, 2001, on behalf of a constituent, Ms. [REDACTED]. Ms. [REDACTED] wants to claim the Hope Scholarship Credit to help defray her son's college tuition. However, she cannot because she makes too much money. She also asks for statistics on who is using the Hope Scholarship Credit. Ms. [REDACTED] further notes that her income level also prevents her from claiming the deduction for interest on education loans.

Section 25A, which provides for the Hope Scholarship Credit, was added to the Internal Revenue Code by section 201 of the Taxpayer Relief Act of 1997, 1997-4 (Vol. 1) C.B. 13. In general, § 25A allows a credit for the qualified tuition and related expenses of the taxpayer, spouse, or certain dependents. The maximum credit is \$1,500 per eligible student for each of the first 2 years of postsecondary education.

As Ms. [REDACTED] pointed out, for a single taxpayer with modified adjusted gross income of up to \$40,000, the Hope Scholarship Credit is allowed in full. Over that amount the credit is phased out and eliminated when modified adjusted gross income is \$50,000 or more. Ms. [REDACTED] earns \$59,000 yearly. The Committee on Finance of the United States Senate stated that the purpose of the credit is to "assist low- and middle-income families and students in paying for the costs of post-secondary education" S. Rep. No. 105-33, 105th Cong., 1st Sess. 9 (1997), 1997-4 (Vol. 2) C.B. 1089.

Section 221 allows a deduction for interest paid during the taxable year on any qualified education loan, up to a maximum of \$2,000 for 2000. The deduction is allowed in full for a single taxpayer with a modified adjusted gross income of \$40,000 or less, is also subject to a phaseout, and is eliminated when income is \$55,000 or more. The Committee on Finance stated that "permitting a deduction for interest on certain student loans will help to ease the financial burden that such obligations represent." S. Rep. No. 105-33, 105th Cong., 1st Sess. 21, 1997-4 (Vol. 2) C.B. 1100.

The enclosed copy of Internal Revenue Service Publication 970, *Tax Benefits for*

Higher Education, contains more detailed information on §§ 25A and 221. For tax year 1998, 2.6 million taxpayers received the Hope Scholarship Credit. If you would like more statistics on this credit, please contact Mike Weber of Statistics of Income at (202) 874-0877.

I hope this information is helpful. Please call G. Channing Horton, Identification Number 50-03418, at (202) 622-4920, if you have any questions.

Sincerely,

Associate Chief Counsel
(Income Tax & Accounting)

By: _____
Robert A. Berkovsky
Chief, Branch 2

Enclosure