Overview

Increases the dependent education deduction maximum amounts and provides for the maximum deduction and the maximum education credit to be adjusted annually for inflation. Applies an income-based phaseout to the education credit, beginning at $38,000 and ending at $45,000. Permits taxpayers to assign anticipated credits to financial institutions, which would receive credit payments directly from the Department of Revenue.

Section

1  Dependent education expense deduction. Increases the maximum dependent education expense deduction from $1,625 to $1,950 for dependents in grades K-6, and from $2,500 to $3,000 for dependents in grades 7-12. Provides for the deduction amounts to be adjusted annually for inflation. Allows divorced and separated parents to each claim the deduction for the same child.

2  Education tax credit. Makes several changes to the education tax credit:

   Provides for the credit to be subject to an income-based phaseout, with the phaseout starting when household income reaches $38,000. No credit would be allowed to claimants with incomes over $45,000. Under current law, filers must have income under $33,500 in order to claim the credit.

   Provides for the maximum credit amount and the credit phaseout to be adjusted annually for inflation.

   Allows divorced and separated parents to each claim the credit for the same child.

   Allows claimants to assign the credit amount to a state or federally-chartered financial institution, with the credit amount for which the claimant qualifies paid directly to the financial institution. This would facilitate loans to parents for education expenses. However, it would require the Department to pay the full credit amount to the financial institution, even if the claimant qualified for an income tax refund that was less than the
credit amount.

3 **Effective date.** Effective beginning in tax year 1999.