

TAX TALK
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EDUCATION CREDITS – HOW MUCH CAN THEY HELP WITH COLLEGE COSTS?

There are two different credits available for higher education tuition and fees. They are the Hope Credit and the Lifetime Learning Credit. You are only able to use one of these credits per student in any tax year.

Hope Credit

This is also known as the American Opportunity Credit, which is an expansion of the Hope Credit. The American Opportunity Credit is only available in 2009 and 2010. The original Hope Credit was allowed for students in their first two years of post-secondary education. The maximum credit was \$1,800 per student and was 100% nonrefundable. In other words, the credit was only allowable to offset income tax. If the credit exceeded your income tax liability, the credit was limited. The American Opportunity Credit is available for any student within his/her first four years of post secondary education. The maximum credit allowed is \$2,500. In addition, 40% of the credit is a refundable credit. This means it would be allowed even if income tax was reduced to zero. An example of this would be where a taxpayer has an income tax liability before any credits of \$1,500. If the taxpayer had 1 child eligible for the maximum credit of \$2,500, then the first 60% or \$1,500 would offset the income tax, bringing it down to zero. The refundable portion of \$1,000 would be allowed as a refund. Under the old rules the maximum credit would have been \$1,800, however in the example it would have been limited to the \$1,500 of income tax liability.

The \$2,500 limit is calculated as 100% of the first \$2,000 of tuition and required fees and 25% of the next \$2,000 of such fees. Qualified fees include tuition, required student activity fees, books, supplies and equipment. Room and board does not qualify.

Eligible students must also be enrolled in a program that leads to a degree, must be taking at least 50% of the course load needed to be considered full-time and not have any felony conviction for possessing or distributing a controlled substance.

There are also income phaseouts for this credit. This credit begins to phase out for individuals with income between \$80,000 and \$90,000 (\$160,000 to \$180,000 for joint filers).

Lifetime Learning Credit

This is a nonrefundable credit. The credit is a 20% credit on the first \$10,000 of qualified tuition and fees paid for the taxpayer, spouse or dependents. The maximum

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credit is therefore \$2,000. This credit is per taxpayer, not per student. There is no degree or workload requirement. This credit is also not limited to the first four years of post secondary education.

There are also income phaseouts for the lifetime learning credit. This credit begins to phase out for individuals with income between \$50,000 and \$60,000 (\$100,000 to \$120,000 for joint filers).

Conclusion

This article only highlights education credits. I would encourage taxpayers to contact a tax professional that has complete knowledge of these credits if they feel they may be eligible.