



HIGHER EDUCATION TAX BENEFITS

▶ 2011 TAX YEAR



The federal government provides a number of tax incentives that can help lower the cost of higher education. These incentives include:

Tax credits directly reduce the amount of tax you pay.

Tax deductions reduce the amount of your income that is taxed.

You may qualify for more than one of these incentives, but there are some restrictions. It's a good idea to calculate your taxes multiple ways to find the maximum benefits available to you.

▶ The American Opportunity Tax Credit

The credit offsets what you pay for the first four years of higher education by reducing the amount of income tax you pay. In addition, the credit is partially refundable so you may be able to get a check from the IRS even if you don't owe any income tax!

This credit provides up to \$2,500 per student and up to \$1,000 of the credit can be refunded if your credit is more than you owe in taxes.

Eligibility Requirements

You must have a modified adjusted gross income (MAGI) of \$90,000 or less (for married couples filing a joint return, \$180,000 or less). The credit is reduced if your MAGI is above \$80,000 and below \$90,000 (above \$160,000 and below \$180,000 for married couples filing jointly). The amount you are eligible for varies depending on your income, how much you spent on higher education expenses, and how many eligible students are in your family.

You can use this credit to offset the cost of tuition, fees, course-related books, supplies, and equipment for higher education (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2011 for yourself, your spouse, or someone you claim as a dependent on your tax return.

The student must have been enrolled at least half-time for one term in 2011 in an eligible program leading to a degree, certificate, or other recognized credential at an eligible school – those that are eligible to participate in the federal student aid programs (virtually all accredited, public, nonprofit, and proprietary post secondary institutions). The credit is only available for the first four years of post-secondary education (undergraduate education). If a student progresses from an undergraduate to a graduate program during the tax year and has not claimed the Hope Scholarship Credit and/or the American Opportunity Tax Credit for more than four taxable years, the student can claim the American Opportunity Tax Credit for the entire taxable year.

You must file a federal income tax return to get the credit (even if you aren't required to file a return). If you are claimed as a dependent on someone's tax return, only the person who claims you can apply for the credit. If you are not claimed as a dependent on someone else's return, were under 24-years-old at the end of 2011 and your earned income was less than half of your support, you can claim the credit to reduce any tax you owe, but are not eligible to get any refund.

You can't claim this credit if the student was convicted of a felony for possessing or distributing a controlled substance in 2011.

You can't claim this credit if you are claiming the Lifetime Learning Credit or the Tuition and Fees Deduction for the student.

Background

This credit replaced the Hope Credit and provides more generous benefits to more taxpayers. It was first available for the 2009 tax year and will expire after the 2012 tax year if Congress doesn't pass legislation to extend it.

▶ The Lifetime Learning Tax Credit

Unlike other credits, the Lifetime Learning Credit is available for all types of post secondary education. Generally, you should only use this credit once you have exhausted your eligibility for more generous credits. This credit may be particularly helpful to graduate students.

This credit provides up to \$2,000 per tax return (not per student). Unlike the American Opportunity Tax Credit, this credit is non-refundable so the maximum credit is limited to the amount of tax you owe.

Eligibility Requirements

You must have a modified adjusted gross income (MAGI) of \$61,000 or less (for married couples filing a joint return, \$122,000 or less). The credit is gradually reduced for those with a MAGI between \$51,000 and \$61,000 (\$102,000 and \$122,000 if married and filing jointly).

This credit can be used to offset what you pay for tuition and fees, as well as other expenses required by the institution for books, supplies and equipment (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2011 for yourself, your spouse, or someone you claim as a dependent on your tax return.

You don't have to be pursuing a degree or certificate to qualify for the Lifetime Learning Credit. You can claim it for any post secondary education and for courses to acquire or improve job skills.

You must file a federal income tax return and have some income tax liability to get the credit. If you are claimed as a dependent on someone's tax return, only the person who claims you can receive the credit.

If you claim the American Opportunity credit for one or more students in your family, you can't use their expenses to claim the Lifetime Learning Credit.

Unlike other credits, students who have felony drug convictions can still qualify for the Lifetime Learning Credit.

▶ Claiming Tax Credits

To claim any higher education tax credit, you must report the amount of your qualified expenses (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) on [IRS Form 8863 - Education Credits](#).

▶ Tuition and Fees Tax Deduction

This deduction can reduce your taxable income by as much as \$4,000 and may benefit you if you are not eligible for any of the tax credits. It is an adjustment to your income so you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Eligibility Requirements:

Taxpayers with a modified adjusted gross income (MAGI) of less than \$80,000 (\$160,000 if married and filing jointly) may be eligible for a \$2,000 deduction. If you're MAGI is less than \$65,000 (\$130,000 if married and filing jointly) you could be eligible for the maximum \$4,000 deduction.

The amount of the Tuition and Fees Deduction you are eligible for also depends on the amount of qualified tuition and related expenses paid for eligible students. You can use the deduction to offset what you paid for tuition and fees, as well as other expenses required by the institution for books, supplies and equipment (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance you received) during 2011 for yourself, your spouse, or someone you claim as a dependent on your tax return. The expenses must have been for a student enrolled in one or more courses at an eligible higher education institution (virtually all accredited, public, nonprofit, and proprietary post secondary institutions).

You can't claim both an education credit and the Tuition and Fees Deduction for the same student for the same year, but you can take the deduction for one student and a credit for another.

You can't take this deduction if you deduct tuition and fees expenses under any other provision of the law (for example, as a business expense).

You can't claim this deduction if you are married and file taxes separately or if another person can claim you as a dependent on his or her tax return.

Calculate your Tuition and Fees Deduction with [IRS Form 8917 - Tuition and Fees Deduction](#).

▶ Student Loan Interest Deduction

This deduction allows you to deduct interest paid on student loans for yourself, your spouse, or your dependents. It can reduce your taxable income by as much as \$2,500. The amount of the Student Loan Interest Deduction you are eligible for depends on the amount of interest paid and your income. It is an adjustment to your income so you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Eligibility Requirements:

Your modified adjusted gross income (MAGI) must be less than \$75,000 (less than \$150,000 if married and filing a joint return) to qualify for this deduction.

Qualified student loans must have been used to fund educational expenses such as tuition, room and board, fees, and books for a student enrolled at least half-time and pursuing a degree, certificate, or similar program at an eligible institution (virtually all accredited, public, nonprofit, and proprietary post secondary institutions).

You can't claim this deduction if you are married and file separately or if another person can claim you as a dependent on his or her tax return.

Figure your Student Loan Interest Deduction using the Student Loan Interest Deduction Worksheet in the instructions for [Form 1040 or 1040A](#).

▶ The 1098-T Statement

You will receive information about your educational expenses in a 1098-T statement from the institution of higher education you attended. Schools are required to send this information to each student and to the IRS by Jan. 31, 2012. (You might receive this by mail or electronically. Be sure to save this information, or give it to the person who claims you on their tax return if you don't claim yourself.)

Some schools report only tuition and fees on this form. If your 1098-T doesn't include amounts you paid for course-related books, supplies, and equipment, and these expenses are covered by the tax benefit you are taking, you can use your records to calculate the amounts paid for these items and report this amount on your tax return.

▶ Taxes on Student Aid and Loan Forgiveness

Scholarships, fellowships, and grants that you received and that are reported on the 1098-T may need to be reported as taxable income in certain circumstances, but are often tax-free. In general, if you are pursuing a degree, certificate, or program of training towards gainful employment, and used the funds to pay tuition, fees, or for required books, supplies and equipment, these sources of assistance are not counted as taxable income.

If you've received a student loan that states it can be forgiven, cancelled, or paid if you work for a certain period of time, in certain professions, for any of a broad class of employers, then the amounts forgiven may qualify for tax-free treatment.

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