

Education Credits & Deductions

There is a variety of tax credits, deductions and savings plans available to taxpayers to assist with the expense of higher education.

- A tax credit reduces the amount of income tax you may have to pay.
- A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay.
- Certain savings plans allow the accumulated interest to grow tax-free until money is taken out (known as a distribution), or allow the distribution to be tax-free, or both.

An exclusion from income means that you won't have to pay income tax on the benefit you're receiving, but you also won't be able to use that same tax-free benefit for a deduction or credit.

Credits

Hope Credit

The Hope credit generally applies to 2008 and earlier tax years. It helps parents and students pay for post-secondary education. The Hope credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax the excess will not be refunded to you. The Hope credit you are allowed may be limited by the amount of your income and the amount of your tax.

The Hope credit is for the payment of the first two years of tuition and related expenses for an eligible student for whom the taxpayer claims an exemption on the tax return. Normally, you can claim tuition and required enrollment fees paid for your own, as well as your dependents' college education. The Hope credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time.

Generally, you can claim the Hope credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse or a dependent for whom you claim an exemption on your tax return.

You cannot take both an education credit and a deduction for tuition and fees (see Deductions, below) for the same student in the same year. In some cases, you may do better by claiming the tuition and fees deduction instead of the Hope credit.

Education credits are claimed on [Form 8863, Education Credits \(Hope and Lifetime Learning Credits\)](#). For details on these and other education-related tax breaks, see [IRS Publication 970, Tax Benefits of Education](#)

American Opportunity Credit

Under the [American Recovery and Reinvestment Act](#) (ARRA), more parents and students will qualify over the next two years for a tax credit, the American opportunity credit, to pay for college expenses.

The new credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and lifetime learning credits.

Special rules apply to a student attending college in a Midwestern Disaster Area. (Wisconsin has many schools that qualify for this additional credit.) For tax-year 2009, only, taxpayers can choose to claim either a special expanded Hope credit of up to \$3,600 for the student or the regular American opportunity credit.

If you have questions about the American opportunity credit, these [questions and answers](#) might help. For more information, see [American opportunity credit](#)

Lifetime Learning Credit

The lifetime learning credit helps parents and students pay for post-secondary education.

For the tax year, you may be able to claim a lifetime learning credit of up to \$2,000 (\$4,000 for students in Midwestern disaster areas) for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student. However, a taxpayer cannot claim both the Hope or American opportunity credit and lifetime learning credits for the same student in one year. Thus, the lifetime learning credit may be particularly helpful to graduate students, students who are only taking one course and those who are not pursuing a degree.

Generally, you can claim the lifetime learning credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse or a dependent for whom you claim an exemption on your tax return.

If you're eligible to claim the lifetime learning credit and are also eligible to claim the Hope or American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. This means that, for example, you can claim the Hope or American opportunity credit for one student and the lifetime learning credit for another student in the same year

Deductions

Tuition and Fees Deduction

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse or your dependent. You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education.

The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000. This deduction, reported on [Form 8917](#), Tuition and Fees Deduction, is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on [Schedule A](#) (Form 1040). This deduction may be beneficial to you if, for example, you cannot take the lifetime learning credit because your income is too high.

You may be able to take one of the education credits for your education expenses instead of a tuition and fees deduction. You can choose the one that will give you the lower tax.

Generally, you can claim the tuition and fees deduction if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return.

You cannot claim the tuition and fees deduction if any of the following apply:

- Your filing status is married filing separately.

- Another person can claim an exemption for you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim that exemption.
- Your modified adjusted gross income (MAGI) is more than \$80,000 (\$160,000 if filing a joint return).
- You were a nonresident alien for any part of the year and did not elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be found in [Publication 519](#), U.S. Tax Guide for Aliens.
- You or anyone else claims an education credit for expenses of the student for whom the qualified education expenses were paid.

Student-activity fees and expenses for course-related books, supplies and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

Student Loan Interest Deduction

Generally, personal interest you pay, other than certain mortgage interest, is not deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than \$70,000 (\$145,000 if filing a joint return), there is a special deduction allowed for paying interest on a student loan (also known as an education loan) used for higher education. Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to \$2,500 in 2008.

The student loan interest deduction is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on Form 1040's Schedule A.

Qualified Student Loan

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent when you took out the loan.

- Paid or incurred within a reasonable period of time before or after you took out the loan.
- For education provided during an academic period for an eligible student.

Loans from the following sources are not qualified student loans:

- A related person.
- A qualified employer plan.

Qualified Education Expenses

For purposes of the student loan interest deduction, these expenses are the total costs of attending an eligible educational institution, including graduate school. They include amounts paid for the following items:

- Tuition and fees.
- Room and board.
- Books, supplies and equipment.
- Other necessary expenses (such as transportation).

The cost of room and board qualifies only to the extent that it is not more than the greater of:

- The allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student, or
- The actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

Business Deduction for Work-Related Education

If you are an employee and can itemize your deductions, you may be able to claim a deduction for the expenses you pay for your work-related education. Your deduction will be the amount by which your qualifying work-related education expenses plus other job and certain miscellaneous expenses is greater than 2% of your adjusted gross income. An itemized deduction may reduce the amount of your income subject to tax.

If you are self-employed, you deduct your expenses for qualifying work-related education directly from your self-employment income. This may reduce the amount of your income subject to both income tax and self-employment tax.

Your work-related education expenses may also qualify you for other tax benefits, such as the tuition and fees deduction and the Hope and lifetime learning credits. You may qualify for these other benefits even if you do not meet the requirements listed above.

To claim a business deduction for work-related education, you must:

- Be working.
- Itemize your deductions on Schedule A (Form 1040 or 1040NR) if you are an employee.
- File Schedule C (Form 1040), Schedule C-EZ (Form 1040), or Schedule F (Form 1040) if you are self-employed.
- Have expenses for education that meet the requirements discussed under *Qualifying Work-Related Education*, below.

Qualifying Work-Related Education

You can deduct the costs of qualifying work-related education as business expenses. This is education that meets at least one of the following two tests:

- The education is required by your employer or the law to keep your present salary, status or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains or improves skills needed in your present work.

However, even if the education meets one or both of the above tests, it is not qualifying work-related education if it:

- Is needed to meet the minimum educational requirements of your present trade or business or
- Is part of a program of study that will qualify you for a new trade or business.

You can deduct the costs of qualifying work-related education as a business expense even if the education could lead to a degree.

Education Required by Employer or by Law

Education you need to meet the minimum educational requirements for your present trade or business is not qualifying work-related education. Once you have met the minimum educational requirements for your job, your employer or the law may require you to get more education. This additional education is qualifying work-related education if all three of the following requirements are met.

- It is required for you to keep your present salary, status or job.
- The requirement serves a business purpose of your employer.
- The education is not part of a program that will qualify you for a new trade or business.

When you get more education than your employer or the law requires, the additional education can be qualifying work-related education only if it maintains or improves skills required in your present work.

Education to Maintain or Improve Skills

If your education is not required by your employer or the law, it can be qualifying work-related education only if it maintains or improves skills needed in your present work. This could include refresher courses, courses on current developments and academic or vocational courses.