

**From the desk of
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College Tax Credits

With the school year now in full swing parents and students should review if they qualify for either of two college tax credits or other education-related tax benefits.

The **American Opportunity Tax Credit** or **Lifetime Learning Credit** is available to taxpayers who pay qualifying expenses for an eligible student.

Eligible students include the taxpayer, spouse and dependents.

The **American Opportunity Tax Credit** provides a credit for each eligible student, while the Lifetime Learning Credit provides a maximum credit per tax return.

Taxpayers often qualify for both credits, only one can be claimed in any given tax year.

The credits apply to eligible students enrolled in an eligible college, university or vocational school, including both nonprofit and for-profit institutions.

The credits are subject to income limits that could reduce the amount taxpayers can claim on their tax return.

Annually the education institution which the student attends is required to issue Form 1098-T by January 31. The form indicates the required information relating to tuition paid or billed which will be needed for your tax returns.

The **American Opportunity Tax Credit** annual credit is \$2,500 per student.

Students can claim this credit for qualified education expenses paid during the entire tax year for a certain number of years:

- The credit is only available for four tax years per eligible student.
- The credit is available only if the student has not completed the first four years of postsecondary education before 2016.

The key features of the credit are:

- Qualified education expenses are amounts paid for tuition, fees and other related expenses for an eligible student. Other expenses, such as room and board, are not qualified expenses.
- The credit equals 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000. That means the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualified expenses for an eligible student.
- Forty percent of the American Opportunity Tax Credit is refundable. This means that even people who owe no tax can get a payment of up to \$1,000 for each eligible student.
- The full credit can only be claimed by taxpayers whose modified adjusted gross income (MAGI) is \$80,000 or less. For married couples filing a joint return, the limit is \$160,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is \$180,000 or more and singles, heads of household and some widows and widowers whose MAGI is \$90,000 or more.

The **Lifetime Learning Credit** of up to \$2,000 per tax return is available for both graduate and undergraduate students.

Unlike the American Opportunity Tax Credit the limit on the Lifetime Learning Credit applies to each tax year rather than to each student.

The Lifetime Learning Credit does not provide a benefit to people who owe no tax as there is no refund available relating to The Lifetime Credit.

Though the half-time student requirement does not apply to the lifetime learning credit, the course of study must be either part of a post-secondary degree program or taken by the student to maintain or improve job skills.

Other features of the credit include:

- Tuition and fees required for enrollment or attendance qualify as do other fees required for the course. Additional expenses do not.
- The credit equals 20 percent of the amount spent on eligible expenses across all students on the return. That means the full \$2,000 credit is only available to a taxpayer who pays \$10,000 or more in qualifying tuition and fees and has sufficient tax liability.
- Income limits are lower than under the American Opportunity Tax Credit. For 2016, the full credit can be claimed by taxpayers whose MAGI is \$55,000 or less. For married couples filing a joint return, the limit is \$111,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is \$131,000 or more and singles, heads of household and some widows and widowers whose MAGI is \$65,000 or more.

There are a variety of other education-related tax benefits that can help many taxpayers.

Those include:

- Scholarship and fellowship grants — generally tax-free if used to pay for tuition, required enrollment fees, books and other course materials, but taxable if used for room, board, research, travel or other expenses.
- Tuition and fees deduction claimed on Form 8917. This can be a worthwhile alternative to the American Opportunity Tax Credit or Lifetime Learning Credit.
- Student loan interest deduction of up to \$2,500 per year.
- Savings bonds used to pay for college though income limits apply, interest is usually tax-free if bonds were purchased after 1989 by a taxpayer who, at time of purchase, was at least 24 years old.
- Qualified tuition programs, also called 529 plans, used by many families to prepay or save for a child's college education.

Taxpayers with qualifying children who are students up to age 24 may be able to claim a dependent exemption and the **Earned Income Tax Credit**.

Depending upon the income levels of the parents many times it is best to plan in advance the income and college credits in relationship to the student as in many cases if the income of the parents are sufficiently high enough that the tax credits are lost whereas those same credits can be very significant in relationship to the student. Adequate planning can result in thousands of dollars in tax benefits if planned properly over the student's school career.

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