

Ch 17 education credits



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What is the primary difference between a tax deduction and a tax credit? A tax deduction (for example, the standard deduction) reduces taxable income. A tax credit (for example, the Child Tax Credit) is a direct, dollar-for-dollar reduction of tax liability. Some credits are refundable (such as the Additional Child Tax Credit), which means they can actually be paid out to taxpayers. When is the AOC available? Under current law, the AOC is available only for Tax Years 2009 through

2017. ONCH 17 EDUCATION CREDITS SPECIFICALLY FOR YOUFOR ONLY\$13.

90/PAGEOrder NowWhat is the AOC? The AOC, much like the Child Tax

Credit, is a credit that has a nonrefundable

component and may have a refundable component. How much is the AOC?

The maximum allowable AOC is \$2,500 per student. Up to 40% of the AOC

may be refundableWhat requirements must a taxpayer meet to claim the

AOC? The taxpayer must meet all of these requirements:

- Pay qualified expenses of higher education.
- Must have paid the qualified education expenses for an eligible student.
- Ensure that the eligible student is the taxpayer, spouse, or dependent for

whom the taxpayer actually claims an exemption. Who cannot claim the

AOC? Taxpayers who meet any of the following may not claim the AOC:

- The taxpayer is filing MFS.
- The taxpayer is claimed as a dependent on anyone else's tax return.
- The taxpayer's MAGI is above a certain amount. Who may claim the AOC

for a dependent student? Any qualified expenses paid on behalf of a dependent student are treated

as paid by the person who claims the dependency exemption. Therefore,

the person claiming the dependency exemption may claim the AOC if they

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meet all necessary requirements. What are qualified education expenses? Tuition and certain related expenses required for enrollment or attendance at an eligible educational institution. What is an eligible educational institution? All eligible educational institutions must be eligible to participate in student aid programs administered by the USDOE. The institution can tell the taxpayer if it is an eligible institution. Are expenses for books, supplies, and equipment that are needed for a course of study considered qualified education expenses? Yes. ***The expenses qualify even if the student does not purchase the materials from the school.***Are room and board qualifying education expenses for the AOC? NO. Room and board are not qualifying education expenses for the AOC? What effect do tax-free funds (such as grants) have on qualifying expenses for the AOC? The expenses must be reduced by the amount of any tax-free funds received. What effect do student loans have on qualifying expenses for the AOC? Student loans are not considered tax-free funds (plus, they have to be repaid). Qualifying expenses do not need to be reduced by student loan proceeds. Who gets to take advantage of expenses paid directly to the educational institution by a third party on behalf of the student? Such expenses are treated as paid by the student, not by the party who actually made the payment. For purposes of the AOC, who is an eligible student? The student has not claimed the AOC in any four earlier years (including years in which the Hope credit was claimed).

- The student has not completed the first four years of postsecondary education.
- The student was enrolled at least half-time for at least one academic period beginning in 2012.
- The student has not been convicted of any federal or state drug felony as of the end of 2012. How is the AOC calculated? The AOC is the sum of:
 1. 100% of the first \$2,000 of qualified education expenses per eligible student.
 2. 25% of the next \$2,000 of qualified education expenses per eligible student. How is the AOC claimed on a tax return? Form 8863. Is the AOC allowed to taxpayers of all income levels? The AOC phases out for taxpayers with MAGI above certain levels *Note that Form 8863 handles the computation of the allowable amount and the applicable phaseout.*What source document is key to properly calculating the AOC or any tax benefit for education? Form 1098-T. What is the maximum lifetime learning credit? The maximum is \$2,000 per return. How is the lifetime learning credit calculated? It is 20% of the first \$10,000 of qualifying expenses per return. Is there a course load requirement for students to claim the lifetime learning credit? There is no course load requirement for the Lifetime Learning Credit. Unlike the AOC, the qualifying student does need to be at least half-time. What is a key difference between qualifying expenses for the lifetime learning credit and the AOC? Generally, books and supplies are not allowed

as expenses for the lifetime

learning credit (there is an exception if the books and supplies are required for enrollment and the materials are purchased directly from the qualifying educational institution). What is the main advantage of the tuition and fees deduction over

the education credits? The deduction has a higher modified AGI limitation.

However, neither tax

break is available for MFS filers. What is the maximum tuition and fees deduction? \$4,000 for taxpayers with modified AGIs up to \$65,000 (\$130,000 MFJ), or

\$2,000 for taxpayers with modified AGIs between \$65,001 and \$80,000 (\$130,001 and \$160,000 MFJ)

Does the tuition and fees deduction phase out? No, the maximum deduction abruptly drops down, then out. If the taxpayer's

modified AGI exceeds \$80,000 (\$160,000 MFJ), no deduction is

allowed at all Can a taxpayer claim both an education credit and a tuition and

fees deduction for the same student in the same year? No. Any taxpayer who claims an education credit may not claim the

tuition and fees deduction for the same student in the same year. Can a dependent claim a tuition and fees deduction? No. If someone claims the student as a dependent, the person claiming the

exemption may take a deduction for the expenses they paid themselves, and the dependent may take no deduction. If someone qualifies to claim

the student as a dependent but opts not to do so, no one may take the deduction. However, if no one qualifies to claim the student as a dependent,

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all expenses are considered paid by the student, and the student may claim the deduction. How is the tuition and fees deduction claimed? The deduction is figured on Form 8917 and reported on Form 1040, line 34, or on Form 1040A, line 19.