

More credit for college

It's complicated enough for parents of college-age children to find their way through the maze of federal loan applications. Sorting through the list of possibilities for tax relief for tuition expenses, and eligibility for them, only adds to the headaches.

But one such possibility has jumped to the head of the class: the American Opportunity Education Tax Credit. It's not truly a brand-new choice. This credit, now available as a result of the stimulus legislation passed in February, is just a supersized version of the Hope Scholarship Credit already in place. But it's more generous, not only in amount but also with regard to who can claim it.

There won't be a quiz, but you'll still need to study a bit. The rules for claiming tax benefits for education expenses aren't any less complicated than before.

Credit one: the expanded Hope

The maximum Hope Credit that you could claim for eligible education expenses on your 2008 income tax return was \$1,800 per student for the first and second years of college.

The American Opportunity Education Tax Credit is more appealing for several reasons: For this year and next, the maximum is \$2,500. (The recently announced 2010 budget proposal would make it permanent.) It's available to college juniors and seniors as well. More families will be eligible to take the credit because the income limitations (measured by modified adjusted gross income, or MAGI) are more liberal.

Credit two: Lifetime Learning

The other education tax credit, the Lifetime Learning Credit, is available for all four years, but per tax return, not per student, and it maxes out at \$2,000. But at least it provides a tax

break for the last two years of college. It's a less attractive choice than the American Opportunity Education Tax Credit now, which also covers all four years.

Deduction: for tuition and expenses

There's a maximum above-the-line \$4,000 deduction for eligible education expenses, but it is set to expire at the end of this year. Deductions aren't as valuable as credits, which reduce tax dollar for dollar. But up until last year, when its income limitations weren't as strict, the deduction offered some help to parents who couldn't claim either of the credits.

Only one choice

You can claim either one of the credits or the deduction, but no more than one of them for the same student. Nor can a credit or deduction be claimed for the same expenses paid from other sources, for example, distributions from Section 529 plans or Education IRAs, tax-free scholarships or other similar tax-free amounts received.

Expenses covered by the credits and deduction

Eligible education expenses include tuition, student-activity fees and expenses for course-related books, supplies and equipment, but only if the fees and expenses are paid as a condition of enrollment or attendance. A student must be enrolled at least half-time at an eligible educational institution (almost all colleges and universities qualify).

A “crib sheet” for education tax breaks

Tax benefit	How much?	MAGI limitations*
The American Opportunity Tax Credit (expanded Hope Credit)	100% of the first \$2,000 and 25% of the next \$2,000 (\$2,500 total) of eligible expenses paid per student.	Singles with MAGI of less than \$80,000 for singles (\$160,000 for marrieds filing jointly) can claim the full credit. Those with MAGIs of up to \$90,000/ \$180,000 receive a partial credit.
Lifetime Learning Credit	20% of the first \$10,000 of eligible expenses paid per tax return (\$2,000).	Singles with MAGI of less than \$50,000 (\$100,000 for marrieds filing jointly). Those with MAGIs up to \$60,000/\$120,000 receive a partial credit.
The Tuition and Fees Tax Deduction	A reduction in income of up to \$4,000 for eligible expenses (depending upon MAGI).	Singles with MAGI of no more than \$65,000 and (\$130,000 for marrieds filing jointly) receive a \$4,000 deduction. Those with MAGI of no more than \$80,000/\$160,000, \$2,000. No deduction for larger MAGIs.

*MAGI is calculated by adding back certain items to adjusted gross income.

For a complete “tutorial,” the IRS offers Publication 970, Tax Benefits for Education, available at www.irs.gov/publications/p970 or by calling 1.800.829.3676. And, for questions about what benefits will be available in your circumstances, call us today.

(April 2009)

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MAIN OFFICE:

205 N. Main Street, Suite 101
Bloomington, IL 61701
309.821.1155 / 888.897.2276 toll free
www.hbtbank.com