

# Education Tax Benefits

## **What is a tax credit?**

A tax credit is money the government gives you to reduce the amount of taxes that you owe them. Some tax credits (see information about the Child Tax Credit and the Earned Income Tax Credit) are refundable (meaning that you get the money back if it exceeds the amount of your taxes) but most just get applied to the taxes you owe and can only reduce them to zero. If you don't owe money to the government to begin with, you don't really get much benefit from tax credits. If you do owe money, however, tax credits can make it so that you don't anymore, or at least owe less. All it takes is filling out an extra form and attaching it to your 1040 or 1040A form.

## **The Lifetime Learning Credit**

This allows for a credit, a reduction of the taxes you owe, of up to \$1,000, depending on the tuition that you are required to pay, after financial aid. To qualify, you must be enrolled in at least one class at any educational or vocational program that is eligible to receive federal aid. Only one credit can be claimed for a family, no matter how many students there are. There is no limit on how many years you can use this credit to reduce your taxes. To claim your credit, fill out Form 8863 and attach it to the rest of your tax return.

## **Deductions on Student Loan Payments**

If you paid for part of your tuition for higher education with student loans, you may be able to take a "deduction" on your taxes on the interest you pay on them, up to \$2500. Unlike a "tax credit" which reduces the amount of tax that you owe to the government, a "tax deduction" reduces the amount of your income that the government uses to figure out how much in taxes you owe them.

### **Guidelines:**

- If you are married, you must file jointly.
- You cannot be someone else's dependent, claimed on their tax form
- You cannot use this deduction for a loan that you got from your employer or an immediate relative.
- You can only deduct interest on a loan that is in your name.
- Starting in 2002, there is no longer a limit as to how long you can receive a deduction for loan interest.

### **To Apply:**

You don't need to do anything extra. Just fill in the amount of your interest on your 1040 or 1040A form.

## **Hope Tax Credit**

The Hope Tax Credit is another credit, which, like the Lifetime Learning Credit, that reduces the amount of tax that you owe, but is not refundable. You can receive a credit up to \$1500, based on your tuition expenses after financial aid.

### **Guidelines:**

- You must be in your first two years of post-high school education.
- You cannot have claimed the credit in 2 prior years.
- You must be enrolled at least half-time.
- You must be free of federal drug felonies.
- If you are married, you must file jointly with your spouse.
- You cannot be claimed as a dependent on someone else's return.

Unlike the Lifetime Learning credit, you can claim a Hope credit for each eligible student in your family. You cannot claim both for the same person, but you can claim both for the same family.

### **Deduction for Higher Education Expenses**

If you paid tuition for yourself, your spouse or your child to go to a college, university or another post-high school learning institution you can deduct up to \$3000 from the income that would normally count towards your taxes.

#### **Guidelines:**

- The amount that you can deduct is based on expenses that you *have* to pay to attend- usually tuition and fees. Books and activity fees don't count unless your school requires you to pay for them before you can sign up for classes. Insurance, medical expenses, room and board, transportation and personal costs don't ever count toward the deduction- even if your school requires you to pay them to sign up.
- You must subtract any financial aid you get from the amount you plan to deduct.
- The institution you attend must be able to receive federal financial aid.
- You can't deduct expenses that you're also receiving a Hope or Lifetime Learning credit for. If you have more than one student in your family, though, you can claim this deduction on a different person than is getting those credits.
- If you are married you must file jointly.
- You cannot be claimed as a dependent on someone else's tax form.
- You must be a resident of the United States.

For more information on these deductions and credits: See IRS Publication 970, available on the internet at <http://www.irs.gov>