Education Credits

American Opportunities Credit
Lifetime Learning Credit

AARP FOUNDATION TAX-AIDE

Education Benefits

- Education credits—this lesson
- Student loan interest—Adjustment Lesson
- Waiver of early IRA distribution penalty—Other Taxes Lesson
- Use of Savings Bonds or Education Savings Accounts—Out of Scope

References

- Pub 4491 Part 5
- Pub 4012 Tab J
- Form 1040 Lines 50, 68
  Sch A or Sch C

Education Credits

- Two Credits
  - American Opportunity
  - Lifetime learning
- Direct Reduction of Tax Liability

Education Credits

- Maximum one credit per student
  - May take a credit for one student and either credit for another
- General Requirements
  - Credit applies to taxpayer, spouse, or dependent
  - Taxpayer not claimed as dependent on another return

Interview Form

Point of Awareness

Yes	No	Unsure	Check appropriate box for each question in each section
Part III – Income – Last Year, Did You *(or Your Spouse)* Receive			
☐	☐	☐	1. (B) Wages or Salary? (Form W-2) If yes, how many j
☐	☐	☐	2. (A) Tip Income?
☐	☐	☐	3. (B) Scholarships? (Forms W-2, 1098-T)

Part IV – Expenses – Last Year, Did You *(or Your Spouse)* Pay			
☐	☐	☐	1. (B) Alimony? If yes, do you have the recipient's SSN? ☐ Yes ☐ No
☐	☐	☐	2. Contributions to a retirement account? _____ IRA (A) _____ Roth IRA (B) _____ 401K
☐	☐	☐	3. (B) Post secondary educational expenses for yourself, spouse or dependents? (Form 1098-T)

Review Tuition Statement

- Form 1098-T
  - Provided by college/institution
  - Shows amount paid and/or amount billed, scholarships and student status
  - Verify paid amounts with taxpayer
  - If adjustments in box 4 or box 6, credit is out of scope

Review Tuition Statement

- Form 1098-T
  - Costs paid by 3rd party, treated as paid by student
  - If student is dependent, expenses considered paid by taxpayer

Form 1098-T

Subtract Amount in Box 5*

☐ CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number	1 Payments received for qualified tuition and related expenses $	OMB No. 1545-1574 2014 Form 1098-T	Tuition Statement
	2 Amounts billed for qualified tuition and related expenses $		
FILER'S federal identification no. / STUDENT'S social security number	3 If this box is checked, your educational institution has changed its reporting method for 2014 ☐		Copy B For Student
STUDENT'S name	4 Adjustments made for a prior year $	5 Scholarships or grants $	
Street address (including apt. no.)	6 Adjustments to scholarships or grants for a prior year $	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2015 ▶ ☐	This is important tax information and is being furnished to the Internal Revenue Service.
City or town, state or province, country, and ZIP or foreign postal code			
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student ☐ / 9 Checked if a graduate student ☐	10 Ins. contract reimb./refund $	
Form 1098-T (keep for your records)	www.irs.gov/form1098t	Department of the Treasury - Internal Revenue Service	

Total Paid: 1

or Amounts billed: 2

Out of Scope

Status Indicators: Boxes 8 and 9

*Adjust if any portion taxable

Education Credits

- Cannot file "Married Filing Separate"
- Must be enrolled at or attended eligible post-secondary school
- AGI below limitations for filing status – See Pub 4012 for details (p J-2 et seq.)
- Cannot treat spouse as nonresident alien

Eligible Schools

- College or university
- Technical, trade or vocational school
- Does not include
  - On the job training
  - Correspondence school
  - School offering online courses only

Qualified Expenses

- Expenses paid in 2014 for academic period beginning 2014 or first 3 months of 2015
- Tuition and certain related expenses required for enrollment or attendance
- Student activity fees paid to institution as condition of enrollment or attendance

Qualified Expenses (cont)

- Course-related books, supplies and equipment (a computer counts if required by institution)
  - AOC – can be purchased anywhere
  - LLC – must be purchased from school as a condition of enrollment

Offset to Qualified Expenses

- Qualified tuition expenses must be reduced by amount paid with:
  - Nontaxable scholarships
  - Nontaxable grants (including Pell if not taxed)
  - Employer-provided educational assistance
  - Veteran's educational assistance
  - Any other nontaxable payments (other than gifts, bequests, or inheritances)

Non-Qualifying Expenses

- Insurance
- Medical expenses (including student health fees)
- Room and board
- Transportation or similar personal, living or family expenses

Each Credit Has Different Rules – See Pub 4012 Tab J

Page J-3

TIP

Education Credits

Probe/Action: To determine if a taxpayer qualifies for the Education Credit.

Comparison of Education Credits

American Opportunity Credit	Lifetime Learning Credit
Up to $2,500 per eligible student	Up to $2,000 credit per return
Available **only** for 4 tax years per eligible student (including any year(s) Hope Scholarship Credit was claimed). (see note at bottom of page)	Available for all years of post secondary education and for courses to acquire or improve job skills
Forty percent (.40) of the credit is refundable[1] (Up to $1,000 even if no taxes are owed)	Non refundable credit
Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply
Credit is reduced if modified AGI is between $80,000 and $90,000 ($160,000 and $180,000 if	Credit is reduced if modified AGI is between $54,000 and $64,000 ($108,000 and $128,000

American Opportunities Credit

- Credit worth up to $2,500 per student
  - Generally 40% Refundable
  - Maximum qualified expenses – $4,000
- First four tax years of post-secondary study
- Student enrolled in degree or certificate program

American Opportunities Credit

- Minimum of ½ normal full-time workload as set by school
- No felony drug conviction
- Includes tuition and course material
  - Computer if required by course/school

Lifetime Learning Credit

- No limit on number of years
- Not a refundable credit
- No minimum amount of course workload
- Not required to pursue a degree
  - If not toward a degree, must be to acquire or improve job skills

Lifetime Learning Credit

- Course material not included unless paid to institution as condition of enrollment
- Maximum of $2,000 per RETURN
  - Based on maximum qualified expenses of $10,000
- Felony drug conviction not disqualifier

Qualified Expenses by Benefit

See Pub 4012 Pages J-2 and J-3

Highlights of Education Tax Benefits for Tax Year 2014

This chart highlights some differences among the benefits discussed in this publication. See the text for definitions and details. **Do not rely on this chart alone.**

Caution: *You generally cannot claim more than one benefit for the same education expense.*

	Scholarships, Fellowships, Grants, and Tuition Reductions	American Opportunity Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Coverdell ESA	Qualified Tuition Program (QTP)	Education Exception to Additional Tax on Early IRA Distributions	Education Savings Bond Program	Employer-Provided Educational Assistance	Business Deduction for Work-Related Education
What is your benefit?	Amounts received may not be taxable	Credits can reduce the amount of tax you have to pay 40% of the credit may be refundable (limited to $1,000 per student)	Credits can reduce amount of tax you must pay	Can deduct interest paid	Earnings not taxed	Earnings not taxed	No 10% additional tax on early distribution	Interest not taxed	Employer benefits not taxed	Can deduct expenses
What is the annual limit?	None	$2,500 credit per student	$2,000 credit per tax return	$2,500 deduction	$2,000 contribution per beneficiary	None	Amount of qualified education expenses	Amount of qualified education expenses	$5,250 exclusion	Amount of qualifying work-related education expenses
What expenses qualify besides tuition and required enrollment fees?	Course-related expenses such as fees, books, supplies, and equipment	Course-related books, supplies, and equipment	Amounts paid for required books, etc., that must be paid to the educational institution, etc., ARE required fees	Books Supplies Equipment Room & board Transportation Other necessary expenses	Books Supplies Equipment Expenses for special needs services Payments to QTP Higher education: Room & board if at least half-time student Elementary (K–12) education: Tutoring Room & board Uniforms Transportation Computer access Supplementary expenses	Books Supplies Equipment Room & board if at least half-time student Expenses for special needs services	Books Supplies Equipment Room & board if at least half-time student Expenses for special needs services	Payments to Coverdell ESA Payments to QTP	Books Supplies Equipment	Transportation Travel Other necessary expenses

Multiple Credits

- Can claim American Opportunity and Lifetime Credits but NOT for same student
- Example:
  - Taxpayer's dependent is full-time college undergraduate – American Opportunity
  - Taxpayer takes one course at local college – Lifetime Learning

Adjustment or Credit

Extendender

- Evaluate benefit of Tuition and Fees adjustment versus credit
- Occasions when adjustment is better than credit
  - Lower income which may impact EIC
  - Other benefits dependent on AGI
  - Improved state benefit may override reduction on federal return

Comparison

Extendender

- Complete federal return – apply credit
- Complete state return
- Record refund/balance due for both returns
- On Form 8863, change lines 27 and/or 31 to zero

Comparison (cont)

Extendender

- Link to 1040 Wkt2 from 1040, line 34
- Enter qualified expenses for each qualified student (bottom of worksheet)
- Make any necessary changes to state return
- Record Refund/Balance Due and compare to credit
- Select best option

TaxWise Worksheet 2

Extendender

- Tuition and Fees adjustment to AGI

Tuition and Fees as an AGI Deduction

- The deduction is limited to $4,000, if AGI does not exceed $65,000, single ($130,000 married filing jointly).
- The deduction is limited to $2,000, if AGI exceeds $65,000, single ($130,000 married filing jointly).
- The deduction is -0- when AGI exceeds $80,000, single ($160,000 married filing jointly).

Amounts listed below will transfer to Form 8917 automatically.

Student's name		Social security number	Qualified expenses
PAUL	ADAM S	201-55-1979	0
			0
			0
			0
			0
			0

The Tax Form

Extendender

Form **8917**

Department of the Treasury
Internal Revenue Service

Tuition and Fees Deduction

▶ Attach to Form 1040 or Form 1040A.
▶ Information about Form 8917 and its instructions is at *www.irs.gov/form8917*.

OMB No. 1
20
Attachment Sequence No. 60

Name(s) shown on return | Your social security number

CAUTION *You **cannot** take both an education credit from Form 8863 and the tuition and fees deduction from this form for the **same student** for the same tax year.*

Before you begin: ✔ To see if you qualify for this deduction, see *Who Can Take the Deduction* in the instructions below.

✔ If you file Form 1040, figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. See the 2013 Form 1040 instructions for line 36.

1	(a) Student's name (as shown on page 1 of your tax return) First name Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Adjusted qualified expenses (see instructions)

2 Add the amounts on line 1, column (c), and enter the total . . . . . .

3 Enter the amount from Form 1040, line 22, or Form 1040A, line 15 | 3

4 Enter the total from either:

• Form 1040, lines 23 through 33, plus any write-in adjustments entered on the dotted line next to Form 1040, line 36, **or**

TaxWise completes from entries on Wkt 2

Claiming the Credits – Under Age 24

None of American Opportunity Credit is refundable if

1. **Taxpayer claiming credit is**
   a) **under age 18 -OR-**
   b) **age 18 at end of year, and their earned income was less than one-half of their own support -OR-**
   c) **a full time student over 18 and under 24 and their earned income was less than one-half of their own support**

AND ...

Claiming the Credits – Age Under 24

2. Taxpayer has at least one living parent,

AND

3. Taxpayer does not file a joint return

➢ But can still claim nonrefundable portion of the American Opportunity Credit!

Taxable Scholarship Income

- Grants/scholarships—tax-free to the extent used for qualified education expenses
- If grants/scholarships exceed qualified education expenses, must report excess as income

Taxable Scholarship

- Taxable Scholarship Income
  - Taxable income for student
  - Report on 1040 Ln 7
- Taxable amount entered on worksheet 1 – carries to Ln 7
- But is NOT considered earned income

Managing Scholarships

- If scholarship conditions allow:
  - Student can choose to pay tax on all or part of the scholarship/grant, then
  - Student or parents can use all expenses toward education credits.
- Larger education credit likely to offset added tax

TaxWise Worksheet 1

US 1040, 1040A, 1040EZ, 1040NR, and 1040NR-EZ Income Worksheet 2013

Name: PAUL ADAMS SSN: 201-55-1979

Interest. List all interest on Schedule B, regardless of the amount.
Unemployment compensation. Fill out 1099G worksheet.

Additional Earned Income	Taxpayer	Spouse	Total
Scholarship income - no W2	4000	0	4000
Household employee income - no W2	0	0	0

Enter Taxable Scholarship Income

Student's Tax Return

Form 1040, Page 1

Taxable Scholarship Income Shows Here

Income

7	Wages, salaries, tips, etc. AB ☐ FB ☐ DCB ☐ SNE ☐ SSHIP ☑		46000
	Taxable scholarship not on Form W2	4000	
	Household employee income not on Form W2	0	
8a	Taxable interest		125

Claim the Credit – Form 8863

- Complete Part III ***FIRST*** for each student
  - Part III Ln 20 – 26: Student and educational institution information
  - Part III Ln 27 – 30: American Opportunity Credit
  - Part III Ln 31: Lifetime Learning
  - Must answer all questions

Claiming The Credit

- TaxWise will complete:
- Part I – American Opportunity Credit
- Part II – Lifetime Learning

➢ But you need to check the under 24 box (below line 7) if the criteria are met

TaxWise Form 8863, Pg 2

US 8863 (2013) Page 2

Name: PAUL ADAMS SSN: 201-55-1979

Caution: Complete Part III for each student for whom you are claiming either the American opportunity credit or lifetime learning credit.
If you need to list additional students, press Shift F10 to duplicate this form.

Part III: Student and Educational Institution Information

20 Student's name as shown on page 1 of this tax return
21 Student's social security number

22 Educational institution information
a Name of first educational institution
1 Address
Zip code, city, and state

2 Did the student receive Form 1098-T from this institution for 2013? ○ Yes ○ No
3 Did the student receive Form 1098-T from this institution for 2012 with Box 2 filled in and Box 7 checked? ○ Yes ○ No
4 If you checked "Yes" in 2 or 3, enter the institution's EIN from Form 1098-T

TaxWise Form 8863, Pg 2

23 Has the Hope Scholarship Credit or American opportunity credit been claimed for this student for any 4 tax years before 2013? ○ Yes ○ No
If "Yes", go to line 31 for this student. If "No", go to line 24.
24 Was the student enrolled at least half-time for at least one academic period that began in 2013 at an eligible educational institution in a program leading towards a postsecondary degree, certificate, or other recognized post-secondary educational credential? See instructions ○ Yes ○ No
If "Yes", go to line 25. If "No", go to line 31 for this student.
25 Did the student complete the first 4 years of post-secondary education before 2013? ○ Yes ○ No
If "Yes", go to line 31 for this student. If "No", go to line 26.
26 Was the student convicted, before the end of 2013, of a felony for possession or distribution of a controlled substance? ○ Yes ○ No
If "Yes", go to line 31. If "No", complete either lines 27 through 30 OR 31 for this student.

American Opportunity Credit

27 Adjusted qualified education expenses. See instructions - do not enter more than $4,000 0
28 Subtract $2,000 from line 27, but not less than -0- 0
29 Multiply line 28 by 25% 0
30 If line 28 is -0-, amount from line 27. Otherwise, add $2,000 to the amount on line 29. Skip line 31 0

Lifetime Learning Credit

31 Adjusted qualified education expenses. See instructions 0

Claim the Credit

- TaxWise carries
  - Part I – Nonrefundable Education Credits to 1040 Line 49
  - Part II – Refundable Education Credits to 1040 Line 66

US 8863 Education Credits 2013

Name: PAUL ADAMS SSN: 201-55-1979

Caution: Complete a separate Part III on page 2 for each student for whom you are claiming either credit before you complete Parts I and II.

Note: These credits are NOT available if you are a dependent of another or married filing separately. **You cannot take an education credit and the tuition and fees deduction for the same student.** Both the credit and the AGI deduction should be checked for Federal and state tax purposes.

The Main Information Sheet indicates that the taxpayer can be claimed as a dependent of another. Was the taxpayer claimed on the other person's return? ○ Yes ○ No

Part I: Refundable American Opportunity Credit

1 Total of all amounts from all Parts III, line 30 0

2 $180,000 if married filing jointly; $90,000 if single, head of household, or qualifying widow(er)

3 Form 1040, line 38, or Form 1040A, line 22, plus excluded income from Form 2555, Form 2555-EZ, Form 4563, or from Puerto Rico

4 Subtract line 3 from line 2. If -0- or less, STOP; you cannot take any education credit

5 $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)

6 If line 4 is equal to or more than line 5, 1.000. If line 4 is less than line 5, divide line 4 by line 5 0

7 Multiply line 1 by line 6 0

Caution: If you were under age 24 at the end of the year and meet the conditions in the instructions, you cannot take the refundable American opportunity credit. Check this box and skip line 8 ☐

8 **Refundable American opportunity credit.** Multiply line 7 by 40% 0

High AGI phase out

If the under-24 rule applies, check the box

TaxWise Form 8863, Pg 1

Part II: Nonrefundable Education Credits

9	Subtract line 8 from line 7	0
10	Total of all amounts from all Parts III, line 31	0
11	Smaller of line 10 or $10,000	0
12	Multiply line 11 by 20%	0
13	$127,000 if married filing jointly; $63,000 if single, head of household, or qualifying widow(er)	
14	Form 1040, line 38, or Form 1040A, line 22, plus excluded income from Form 2555, Form 2555-EZ, Form 4563, or from Puerto Rico	
15	Subtract line 14 from line 13. If -0- or less, skip lines 16 and 17	
16	$20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)	0
17	If line 15 is equal to or more than line 16, 1.000. If line 15 is less than line 16, divide line 15 by line 16	0
18	Multiply line 12 by line 17	0
19	**Nonrefundable education credits**	0

High AGI phase out

Other Alternatives

- **If education or training does not qualify for American Opportunity Credit… e.g. computer class at local library or high school to improve business skills**
  - **Sch C deduction if relates to self-employed business**
  - **Sch A miscellaneous deduction if relates to employment**

Recovery of Prior Year's Expenses

- Expenses were claimed for either credit
  - May need to recapture part of all of credits received – out of scope
- Expenses were claimed as adjustment or deduction
  - May need to include recovery in income if tax benefit was received in prior year

Education Quiz #1

- Jim and May Brown, $48,000 AGI, two children
  - Rose, sophomore, in college full-time
  - John, 4th year full-time college senior
- Both children claimed as dependents

Education Quiz #1

- Browns made tuition payments of $6,000 in August for 2014 classes and $6,000 in December for 2015
- For which education credits do they qualify?

American Opportunity Credit for both children

Education Quiz #1 – Part 2

- Can the Browns include the payments they made in December for 2015?

Yes

Education Quiz #2

- If Rose had paid for her own tuition, how would the answer differ?

NOT AT ALL, unless Rose not claimed as a dependent

Education Quiz #3

- If Jim and May had not claimed Rose as a dependent (even though entitled to the exemption), who is entitled to the credit?

ROSE is entitled to the nonrefundable credit, but not any refundable credit

Education Benefits

Questions?

Comments?