

Federal Higher Education Tax Benefits

There are several federal income tax benefits available to you as a student. If you qualify for higher education tax credits or deductions, you receive the benefits when you file your federal tax return. That's the year after you pay the education expenses. For a complete list of federal higher education tax benefits and for further information, see Internal Revenue Service (IRS) publication "970" at www.irs.gov. Some of the federal tax benefits include the following:

Tax Credits – These reduce the actual amount of tax you owe. They may or may not be refundable.

American Opportunity Tax Credit

This provides a credit of up to \$2,500 for qualified tuition and related expenses. The credit is 40 percent refundable, which means you may claim the credit and get a refund even if you don't owe taxes.

Lifetime Learning Tax Credit

This provides a credit of up to \$2,000 for qualified tuition and related expenses. The credit is non-refundable, which means your credit applies only to the actual tax you owe.

Tax Deductions – These reduce your taxable income.

Student Loan Interest Deduction

This allows you to deduct up to \$2,500 of the interest you paid on student loans.

Tuition and Fees Deduction

This allows you to deduct up to \$4,000 in qualified tuition and related expenses even if you don't itemize deductions on Schedule A, Form 1040. This deduction may work for you if you can't take either the American Opportunity or Lifetime Learning Tax Credit.

Tax Exclusion From Income – This allows you to exclude education benefits from your taxable income.

Employer-Paid Educational Assistance

Your employer can exclude \$5,250 in employer-paid education benefits from your W-2 Wage and Tax Statement as long as you receive those benefits yearly under an educational assistance program. Also, you don't have to include those benefits as income on your income tax return.

Limitations and Restrictions

Federal income tax credits and deductions follow different timelines and often vary in their eligibility requirements and definitions of what qualified education expenses are. Students may need to choose among tax benefits since some can't be used in the same tax year as others. For example, you cannot use any of the tax-free education expenses paid by your employer as the basis for any other deduction or credit. The following table is unofficial: see IRS publication 970 at www.irs.gov for complete, and official, details.

	American Opportunity Tax Credit	Lifetime Learning Tax Credit	Student Loan Interest Deduction
What is your benefit?	Credits can reduce the amount of tax you have to pay. Forty percent of the credit may be refundable (limited to \$1,000 per student).	Credits can reduce the amount of tax you have to pay	You can deduct interest paid on your student loans from your taxable income.
What is the annual limit?	\$2,500 credit per student	\$2,000 credit per student	\$2,500 deduction per student
What expenses qualify besides tuition and fees?	Course-related books, supplies and equipment	Student activity fees, course-related books. Supplies and equipment qualify only if the fees and expenses must be paid in order to attend the institution.	Books, supplies, equipment, room and board, transportation, and other education-related expenses.
What level of education qualifies?	Undergraduate and graduate	Undergraduate and graduate Courses to acquire or improve job skills	Undergraduate and graduate
What are some of the other conditions that apply?	Can be claimed for only four tax years (which includes years Hope credit is claimed) Must be enrolled at least half-time in degree program No felony drug conviction(s) Must have completed first four years of postsecondary education before end of preceding tax year You can't claim this credit if your filing status is married filing separately," or you are listed as an exemption on another person's tax return	You can't claim this credit if your filing status is "married filing separately," or you are listed as an exemption on another person's tax return	Must have been at least half-time student in degree program You can't claim this deduction if your filing status is "married filing separately," or you are listed as an exemption on another person's tax return
In what income range do benefits phase out?	\$80,000-\$90,000 \$160,000-\$180,000 for joint returns	\$54,000-\$64,000 \$108,000-\$128,000 for joint returns	\$65,000-\$80,000 \$130,000-\$160,000 for joint returns

Source: United States Internal Revenue Service, Publication 970, www.irs.gov/pub/irs-pdf/p970.pdf