IR-2014-90: Back-to-School Reminder for Parents and Students: Check Out College Tax Credits for 2014 and Years Ahead

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WASHINGTON — With another school year now in full swing, the Internal Revenue Service today reminded parents and students that now is a good time to see if they will qualify for either of two college tax credits or any of several other education-related tax benefits when they file their 2014 federal income tax returns.

In general, the American opportunity tax credit and lifetime learning credit are available to taxpayers who pay qualifying expenses for an eligible student. Eligible students include the taxpayer and his or her spouse and dependents. The American opportunity tax credit provides a credit for each eligible student, while the lifetime learning credit provides a maximum credit per tax return. Though a taxpayer often qualifies for both of these credits, he or she can only claim one of them for a particular student in a particular year. Claimed on Form 8863, these credits are available to all taxpayers — both those who itemize their deductions on Schedule A and those who claim a standard deduction.

For those eligible, including most undergraduate students,

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the American opportunity tax credit will generally yield the greater tax savings. Alternatively, the lifetime learning credit should be considered by part-time students and those attending graduate school.

Both credits are available for students enrolled in an eligible college, university or vocational school, including both nonprofit and for-profit institutions. Neither credit can be claimed by a nonresident alien, a married person filing a separate return or someone claimed as a dependent on another person's return.

Normally, a student will receive a Form 1098-T from their institution by the end of January of the following year (Jan. 31, 2015 for calendar year 2014). This form will show information about tuition paid or billed along with other information. However, amounts shown on this form may differ from amounts taxpayers are eligible to claim for these tax credits. Taxpayers should see the instructions to Form 8863 and Publication 970 for details on properly figuring allowable tax benefits.

Many of those eligible for the American opportunity tax credit qualify for the maximum annual credit of $2,500 per student. Students can claim this credit for qualified educational expenses paid during the entire tax year for a certain number of years:

- The credit is only available for 4 tax years per eligible student.
- The credit is available only if the student has not completed the first 4 years of postsecondary education before 2014.

Here are some more key features of the credit:

- Qualified education expenses are amounts paid for tuition, fees and other related expenses for an eligible student. Other expenses, such as room and board, are not qualified expenses.
- The credit equals 100 percent of the first $2,000 spent and 25 percent of the next $2,000. That means the full $2,500 credit may be available to a taxpayer who pays $4,000 or more in qualified expenses for an eligible student.
- The full credit can only be claimed by taxpayers whose modified adjusted gross income (MAGI) is $80,000 or less. For married couples filing a joint return, the limit is $160,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is $180,000 or more and singles, heads of

household and some widows and widowers whose MAGI is $90,000 or more.
- Forty percent of the American opportunity tax credit is refundable. This means that even people who owe no tax can get an annual payment of up to $1,000 for each eligible student.

The lifetime learning credit of up to $2,000 per tax return is available for both graduate and undergraduate students. Unlike the American opportunity tax credit, the limit on the lifetime learning credit applies to each tax return, rather than to each student. Also, the lifetime learning credit does not provide a benefit to people who owe no tax.

Though the half-time student requirement does not apply to the lifetime learning credit, the course of study must be either part of a post-secondary degree program or taken by the student to maintain or improve job skills. Other features of the credit include:

- Tuition and fees required for enrollment or attendance qualify as do other fees required for the course. Additional expenses do not.
- The credit equals 20 percent of the amount spent on eligible expenses across all students on the return. That means the full $2,000 credit is only available to a taxpayer who pays $10,000 or more in qualifying tuition and fees and has sufficient tax liability.
- Income limits are lower than under the American opportunity tax credit. For 2014, the full credit can be claimed by taxpayers whose MAGI is $54,000 or less. For married couples filing a joint return, the limit is $108,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is $128,000 or more and singles, heads of household and some widows and widowers whose MAGI is $64,000 or more.

You can use the IRS's Interactive Tax Assistant tool to help determine if you are eligible for these benefits. The tool is available on IRS.gov. Eligible parents and students can get the benefit of these credits during the year by having less tax taken out of their paychecks. They can do this by filling out a new Form W-4, claiming additional withholding allowances, and giving it to their employer.

There are a variety of other education-related tax benefits that can help many taxpayers. They include:

- Scholarship and fellowship grants — generally tax-free if used to pay for tuition, required enrollment fees, books and other course materials, but taxable if used for room, board, research, travel or other expenses.
- Student loan interest deduction of up to $2,500 per year.
- Savings bonds used to pay for college — though income limits apply, interest is usually tax-free if bonds were purchased after 1989 by a taxpayer who, at time of purchase, was at least 24 years old.
- Qualified tuition programs, also called 529 plans, used by many families to prepay or save for a child's college education.

Taxpayers with qualifying children who are students up to age 24 may be able to claim a dependent exemption and the earned income tax credit.

The general comparison table in Publication 970 can be a useful guide to taxpayers in determining eligibility for these benefits. Details can also be found in the Tax Benefits for Education Information Center on IRS.gov.

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