



Barnum Financial Group

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Education Tax Credits and Deductions

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What are the tax credits and deductions relating to higher education?

There are two education tax credits--the American Opportunity credit (formerly the Hope credit) and the Lifetime Learning credit--that provide some relief to families in the midst of financing their children's college education. There is also a federal income tax deduction for certain taxpayers who pay qualified higher education expenses, as well as a deduction for certain individuals who pay student loans. As a general rule, a tax credit is a dollar-for-dollar reduction against taxes owed, and it is therefore more valuable than a tax deduction of the same dollar amount.

American Opportunity credit

The American Opportunity credit is worth a maximum \$2,500 per student in tax savings for the first four years of your child's post-secondary education. The credit is calculated as 100 percent of the first \$2,000 of qualified tuition and related expenses, plus 25 percent of the next \$2,000 of expenses.

There are eligibility restrictions. First, the credit applies only to undergraduate students who are enrolled in college on at least a half-time basis. Second, the ability of parents to take the credit depends on their modified adjusted gross income (MAGI). In 2015, the full credit is limited to single filers with a MAGI below \$80,000 and joint filers with a MAGI below \$160,000. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000 and joint filers with a MAGI between \$160,000 and \$180,000. The same limits applied in 2014.

One distinct advantage of the American Opportunity credit is that there is no limit on the number of credits that may be claimed on a single tax return in a given year (provided each person qualifies independently). For example, if Mom and Dad have triplets who are in their freshman year of college, then Mom and Dad can claim a total of \$7,500 (\$2,500 x 3) in credits for that year. However, the American Opportunity credit and Lifetime Learning credit are mutually exclusive; they cannot be taken in the same year on behalf of the same student.

Lifetime Learning credit

The second education tax credit is the Lifetime Learning credit, which is worth a maximum of \$2,000. The credit is calculated as 20 percent of the first \$10,000 of qualified tuition and related expenses.

As the name implies, the Lifetime Learning credit is intended to apply to higher education courses taken throughout your lifetime, whether to acquire or improve job skills. As such, it is less restrictive on the type and level of enrollment than the American Opportunity credit. For example, the Lifetime Learning credit is available to graduate students as well as to undergraduate students. It is also available to students enrolled on less than a half-time basis. So, a single word processing course taken at a local community college will qualify for the credit.

As with the American Opportunity credit, there are restrictions on the Lifetime Learning credit. In 2015, the full credit is limited to single filers with a modified adjusted gross income (MAGI) below \$55,000 (\$54,000 in 2014) and joint filers with a MAGI below \$110,000 (\$108,000 in 2014). A partial credit is available for single filers with a MAGI between \$55,000 and \$65,000 (\$54,000 and \$64,000 in 2014) and joint filers with a MAGI between \$110,000 and \$130,000 (\$108,000 and \$128,000 in 2014). One particular disadvantage of the Lifetime Learning credit is that it is limited to a total of \$2,000 per tax return per year, regardless of the number of people who qualify in a family in a given year. So, in the example with the triplets, Mom and Dad would be able to take a total credit of \$2,000, not \$6,000.

Deduction for qualified higher education expenses

The deduction for qualified higher education expenses is not available in 2015, but was available in 2014. In 2014, the deduction was available for qualified higher education expenses paid during the tax year; single filers with a MAGI of \$65,000 or less and joint filers with a MAGI of \$130,000 or less were entitled to a \$4,000 deduction; single filers with a MAGI between \$65,000 and \$80,000 and joint filers with a MAGI between \$130,000 and \$160,000 were entitled to a \$2,000 deduction.

Student loan interest deduction

You can deduct up to \$2,500 of the interest you pay on qualified student loans, provided you meet the income limits. In 2015, for single filers, a full student loan interest deduction is available with a modified adjusted gross income (MAGI) up to \$65,000; a partial deduction is available for a MAGI between \$65,000 and \$80,000. For joint filers, a full deduction is available with a MAGI up to \$130,000; a partial deduction is available with a MAGI between \$130,000 and \$160,000. The same limits applied in 2014.

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