

Tax Benefits

There are two tax credits and two tax deductions available to families incurring college expenses. The tax credits are the Hope Scholarship tax credit and the Lifetime Learning tax credit. The tax deductions are called the Tuition and Fees tax deduction and the Student Loan Interest tax deduction. The IRS published guidance for all of these programs under Publication 970. You can go to www.irs.gov and search for this publication using their search tool.

Hope Scholarship Credit

First of all, the Hope Scholarship tax credit is not a scholarship. It's a tax credit. Tax credits reduce the amount of tax you owe dollar for dollar. The Hope Scholarship tax credit has the following conditions attached to the program (this is not an exhaustive list, but should get you well on your way to understanding the program):

- An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope credit.
- A family may claim a tax credit up to \$1,500 for each eligible student for up to two tax years (100% of the first \$1,000 and 50% of the second \$1,000 paid for qualified expenses).
- The taxpayer must claim an eligible student as a dependent on the tax return, unless the credit is for the taxpayer or the taxpayer's spouse. (This means the taxpayer may also be the student.)
- Taxpayers cannot claim a Hope credit if their Modified Adjusted Gross Income is \$53,000 or more for a single taxpayer, or \$107,000 or more for married taxpayers filing a joint return. (The Hope credit amount is reduced gradually for a single taxpayer with income between \$43,000 and \$53,000 and for families with income between \$87,000 and \$107,000 if married and filing jointly.)
- An eligible student must be enrolled at least half-time in the first two years of undergraduate study for at least one academic period beginning in the tax year in a degree-seeking program or certificate program.
- [IRS form 8863](#) is used to claim the credit.

Lifetime Learning Credit

- The Lifetime Learning credit is very similar to the Hope Scholarship credit, except that it can be used for any student at any grade level...even graduate students. Here are some facts to further your understanding:
- An eligible taxpayer must file a tax return and owe taxes to claim the credit.

- A family may claim a tax credit of up to \$2,000 per tax year for the taxpayer, taxpayer's spouse, or any eligible dependents for an unlimited number of tax years (20% of the first \$10,000 of qualified educational expenses paid for all eligible students).
- This credit is family-based rather than based on the number of dependents as with the Hope credit.
- The taxpayer must claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. (This means the taxpayer may also be the student.)
- Taxpayers cannot claim a Lifetime Learning credit if their Modified Adjusted Gross Income is \$53,000 or more for a single taxpayer, or \$107,000 or more for married taxpayers filing a joint return. (The credit amount is reduced gradually for a single taxpayer with income between \$43,000 and \$53,000 and for families with income between \$87,000 and \$107,000 if married filing jointly.)
- Taxpayers that claim the Hope credit are not eligible to claim the Lifetime Learning credit for the same student.
- [IRS form 8863](#) is used to claim the credit.

Tuition and Fees Tax Deduction

Although not as desirable as a tax credit, a tax deduction is an “above the line” adjustment to your taxable income. The Tuition and Fees Tax Deduction can reduce taxable income by as much as \$4,000 (for tax year 2005). Here are some of the highlights of the program:

- This deduction is available to all taxpayers who claim an eligible student (an individual enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return. (The deduction may also be for the taxpayer or the taxpayer's spouse.)
- It is available to those who do not qualify for either the Hope or Lifetime Learning Education Tax Credits.
- The maximum amount of qualified education expenses that can be deducted through the Tuition and Fees Deduction for the 2005 tax year is \$4,000 for taxpayers with a Modified Adjusted Gross Income of \$65,000 or less (\$130,000 or less for married couples filing jointly).
- The maximum Tuition and Fees Deduction is \$2,000 for taxpayers with a Modified Adjusted Gross Income greater than \$65,000 (\$130,000 for married couples filing jointly), but not greater than \$80,000 (\$160,000 for married couples filing jointly).
- Taxpayers with a Modified Adjusted Gross Income greater than \$80,000 (\$160,000 for married couples filing jointly) are not eligible for this deduction.

- To receive the deduction, the taxpayer must enter the qualified tuition and fee amount on Form 1040, line 34, or Form 1040A, line 19.
- The deduction is allowed for qualified tuition and expenses paid in 2005 at an institution of higher education during 2005 or for an academic period beginning in 2005 or in the first three months of 2006.

Student Loan Interest Tax Deduction

Student loan interest is tax deductible up to \$2,500 a year. A lender should send the borrower Form 1098-E if they paid more than \$600 in interest during the tax year. (It's possible that you could receive multiple 1098-E's if you have more than one loan provider.) Here are some additional qualifiers for the deduction:

The loan must have been used toward qualified higher education expenses, including tuition, room and board, books and supplies.

The maximum allowable deduction is gradually reduced for single taxpayers with Modified Adjusted Gross Income between \$50,000 and \$65,000 (between \$105,000 and \$135,000 for married taxpayers filing jointly).

Taxpayers with a Modified Adjusted Gross Income greater than \$65,000 (\$135,000 for married couples filing jointly) are not eligible for this deduction.

To receive the deduction, the taxpayer must enter the qualified tuition and fee amount on Form 1040, line 33, or Form 1040A, line 18.