



# Higher Education Tax Benefits

## Tax Year 2013- How Students and Parents can Save

The Iowa College Student Aid Commission connects you to information and resources that help parents and students finance education expenses beyond high school. The IRS offers various tax savings (deductions or credits) to individuals and families paying higher education expenses. This information is intended for educational purposes and should not be considered as legal or tax advice. You should consult your professional tax advisor or attorney for more information about the higher education tax benefits and to determine your eligibility. You also may consult the IRS's Publication 970 on Tax Benefits for Education online at [www.irs.gov](http://www.irs.gov).

**Lifetime Learning Tax Credit** reduces the amount of income tax you may have to pay.

- A maximum of \$2,000 may be claimed per tax return (up to the amount of taxes owed) for qualified education expenses paid for all eligible students. There is no limit on the number of years of the credit can be claimed for each student.
  - Qualified education expenses include tuition and other related expenses<sup>1</sup> but not room and board.
- The student must be you, your spouse or your dependent for whom you claim an exemption on your tax return.
- Eligible students must be enrolled in at least one post-secondary education course. The course can be either a part of a degree program or taken to acquire or improve job skills.
- You may not claim the Lifetime Learning credit for a student if you claim the American Opportunity Tax Credit or a tuition and fees deduction for the same student in the same tax year.
- To claim the Lifetime Learning credit, complete Parts II and III of Form 8863, and submit it with Form 1040 or 1040A. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.
- Individual tax returns of \$63,000 or more (joint tax returns of \$127,000) do not qualify. Individual tax returns that are more than \$53,000 (joint tax returns of \$107,000), but less than \$63,000 (joint tax returns of 127,000) receive reduced benefits. Those who are married filing separately are not eligible.

**The American Opportunity Tax Credit** reduces the amount of income tax you may have to pay.

- A maximum of \$2,500 (up to 100% of the first \$2,000, then up to 25% of the next \$2,000) may be claimed per eligible student for qualified education expenses paid for the first four years of postsecondary education, including any year(s) that the Hope Credit was claimed.
  - Qualified educational expenses may include tuition and other related expenses. Books, supplies and equipment need not be purchased from the school to qualify.
  - Up to \$1,000 may be claimed even if you do not owe any taxes.
- The student must be you, your spouse or your dependent.
- Eligible students must be enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and have no felony drug convictions before the end of the tax year.
- You may not claim the American Opportunity credit and Lifetime Learning credit for the same student in the same tax year.
- You may not claim the American Opportunity credit and deduct tuition and fees for the same student in the same tax year.
- To claim the American Opportunity credit, complete Parts I and III of Form 8863, and submit it with Form 1040 or 1040A. Use information from the IRS Form 1098T sent by the college or university to help determine your credit.
- Individual tax returns of \$90,000 or more (joint tax returns of \$180,000) do not qualify. Individual tax returns that are more than \$80,000 (joint tax returns of \$160,000), but are less than \$90,000 (joint tax returns of \$180,000) receive reduced benefits. Those who are married filing separately are not eligible.

<sup>1</sup>Related education expenses may include student activity fees and expenses for course-related books, supplies, and equipment, but only if these fees must be paid directly to the college or university as a condition of enrollment or attendance.

**Tuition & Fees Deduction** reduces the amount of a taxpayer's income subject to tax.

- A maximum of \$4,000 paid for tuition and fees may be deducted each year for each eligible student even if you do not itemize deductions.
  - Eligible higher education expenses include tuition and other related expenses<sup>1</sup> but not room and board.
- The student must be you, your spouse or your dependent.
- Eligible students must be enrolled in one or more courses at an eligible educational institution and must have either a high school diploma or GED.
- You may not claim a tuition and fee deduction for those expenses of a student for whom an American Opportunity credit or Lifetime credit is taken.
- To claim the tuition and fees deduction, complete Form 8917 and submit it with Form 1040 or 1040A. Use information from the IRS Form 1098T sent by the college or university to help determine your maximum deduction.
- Individual tax returns of \$80,000 or more (joint tax returns of \$160,000) do not qualify. Individual tax returns that are more than \$65,000 (joint tax returns of \$130,000), but less than \$80,000 (joint tax returns of \$160,000) receive reduced benefits. Those who are married filing separately are not eligible.

### Qualified Tuition Programs (529 plans)

Qualified Tuition Programs (also known as 529 plans) allow you to either prepay or contribute to an account established for paying a student's qualified education expenses at an eligible educational institution. There are no income requirements, and in general, you may withdraw funds from a 529 plan on a tax-free basis if the amount(s) does not exceed the qualified expenses for the student less any tax-free educational assistance received. For more information visit [www.collegesavingsiowa.com](http://www.collegesavingsiowa.com).

<sup>1</sup>Related education expenses may include student activity fees and expenses for course-related books, supplies, and equipment, but only if these fees must be paid directly to the college or university as a condition of enrollment or attendance.

**Student Loan Interest Deduction** reduces the amount of a taxpayer's income subject to tax.

- A maximum of \$2,500 may be deducted each year even if you do not itemize deductions.
- To be eligible, the student loan(s) must have been borrowed to pay qualified educational expenses for a student who was enrolled at least half-time in a postsecondary degree or certificate program.
  - Qualified educational expenses may include tuition, fees, room & board, books, supplies, equipment, transportation and other necessary expenses.
- The student must be you, your spouse or your dependent.
- In addition to simple interest on the loan, the following also may be considered student loan interest: loan origination fees, capitalized interest, interest on revolving lines of credit used to pay qualified educational expenses, interest on refinanced student loans and voluntary interest payments.
- To claim the student loan interest deduction, enter the allowable deduction on the correct line of your tax form. Use the information from the Form 1098E sent by your loan holder to help determine your maximum deduction.
- Individual tax returns of \$75,000 or more (joint tax returns of \$155,000) do not qualify. Individual tax returns of more than \$60,000 (joint tax returns of \$125,000), but less than \$75,000 (joint tax returns of \$155,000) receive reduced benefits. Those who are married filing separately are not eligible.

**Other Tax Benefits Available** to assist you with the cost of higher education including:

- IRA Withdrawals
- Employer-Provided Educational Assistance
- Education Savings Bonds
- Business Deductions for Work-Related Education
- Coverdell Education Savings Accounts (ESA)

### Contact a Tax Advisor

Remember, you may not claim expenses that were paid with tax-free scholarships, grants or other educational assistance OR expenses used to claim a different tax benefit or deduction. You may wish to talk to a tax advisor for help in determining which tax benefit is best for you. You can contact the IRS at 800-829-1040 or go online at [www.irs.gov](http://www.irs.gov).

*The higher education tax benefit information printed in this document is believed to be correct as of January 2014. It is intended to provide general information and should be used for comparison purposes only. Refer directly to IRS Publication 970 for more specific information.*

