



Wolf Briefing



Education Based Tax Deductions And Credits

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In the March 2004 *Money Talks* I wrote about planning for future college costs. For those of you with students in college now, I will briefly explain the available education based tax deductions and credits.

Student loan interest

Generally, you can deduct up to \$2,500 of interest on qualified education loans. This deduction is taken as an adjustment to income and does not require that you itemize deductions. It is available on qualified loans for the benefit of you, your spouse or your dependent as long as the student is taking at least one half the normal full-time load. Qualified loans are loans to pay for tuition, fees, room and board, equipment, books and transportation to attend an eligible institution.

Most colleges, universities, vocational schools and many other post-secondary schools are eligible institutions.

The amount of the student loan interest deduction is phased out when modified adjusted gross income (AGI) is between \$50,000 and \$65,000 (\$100,000 and \$130,000 if you file a joint return). The person with the primary legal obligation to repay the loan is the one eligible to take the deduction provided he or she is not a dependent on another person's tax return. Thus, if your dependent child is a student with the primary responsibility to repay the debt, neither of you is entitled to the deduction. In this situation, your child may be entitled to the deduction, however, if you do not claim him or her as a dependent on your return.



By Jana B. Bacon, CPA

Tuition and fees You may be allowed to claim a deduction as an adjustment to income for a portion of tuition and fees paid to an eligible institution. The deduction depends upon your AGI as follows:

- If AGI is \$65,000 or less (\$130,000 for a joint return) the deduction is limited to \$4,000.
- If AGI is between \$65,001 and \$80,000 (\$130,001 and \$160,000 for a

joint return) the deduction is limited to \$2,000.

- There is no deduction allowed if your AGI exceeds \$80,000 (\$160,000 for a joint return).

The deduction is not allowed if you can be claimed as a dependent on another person's tax return.

Hope and Lifetime Learning credits

These tax credits may be available to you if you are paying qualified higher education costs for you, your spouse or your dependent. Qualified expenses include tuition and required enrollment fees only. Both credits are phased out when AGI is between \$42,000 and \$52,000 (\$85,000 and \$105,000 if you file a joint return). If you claim your student child as a dependent then only you may claim the credit if you otherwise qualify. If you do not claim your student child as a dependent, then only your child may claim the credit if they otherwise qualify. It does not matter which one of you is paying the educational expenses.

The Hope Credit is a credit of 100 percent of the first \$1,000 and 50 percent of the next \$1,000 for a maximum of \$1,500 per student per year. This credit is available only until the first two years of post secondary education are completed. The student must be enrolled in a degree program and must be taking at least one half of the normal full-time work load for at least one semester during the tax year.

The Lifetime Learning Credit is a credit of 20 percent of tuition and fees up to \$10,000 for a maximum credit of \$2,000 per taxpayer per year. The credit is available for all years of post secondary education and there is no requirement that you be enrolled in a degree program. You must simply be enrolled in one or more courses.

Note that these deductions and credits are not available to you if your filing status is married filing separately.

There are rules that preclude you from taking more than one deduction or credit for the same expenditure so you should figure your taxes using the various alternatives to determine the most advantageous deduction or credit for you.

This is a very brief discussion of the general rules associated with each option discussed. To find out more, look up Publication 970 at the IRS website, www.irs.gov or consult with your investment or tax advisor.



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