

❖ Frequently Asked Questions (FAQs)

Q1. Who can claim the American Opportunity (Hope) or Lifetime Learning Tax Credit?

A1. An eligible taxpayer may claim them. An eligible taxpayer may be the student or, if the student is a dependent for federal income tax purposes, the person claiming the student as a dependent. A student who is a dependent cannot claim the tax credits on his or her own tax return.

Q2. What education expenses are considered as qualified tuition and related expenses?

A2. Qualified tuition and related expenses are tuition and fees required for enrollment at an eligible educational institution that were paid between and including January 1 and December 31 of the tax year. Generally, they do not include books, room and board, student activities, athletics (unless the course is part of the degree program), insurance, equipment, transportation, or other similar personal, living or family expenses. **However, the term “qualified tuition and related expenses” may be expanded under defined modifications such as the American Recovery and Reinvestment Act.**

Q3. Can I claim both the American Opportunity (Hope) and Lifetime Learning Tax Credit the same year?

A3. Yes, provided that they are for different students. For each year that a student meets the eligibility requirements for either credit, his or her expenses may be used as the basis for only one tax credit.

Q4. What are the prior year adjustments on my form (Box 4 and 6)?

A4. Beginning in tax year 2004, educational institutions must also report certain amounts to the IRS pertaining to prior year reductions to qualified tuition and related expenses as well as reductions to scholarship and/or grant amounts for a prior year.

Q5. Can I claim a tax credit in the same year that I take a qualified distribution from a Coverdell account (Education IRA) or 529 Savings Plan?

A5. Yes, as long as the funds from the qualified distribution are not used to pay the same expenses used to calculate the education tax credit or deduction. See IRS Publication 970 for guidance.

Q6. Can I claim a tax credit for qualified tuition and related expenses paid in advance of when the academic period begins?

A6. Generally, the tax credits are available only for payments of qualified tuition and related expenses that cover an academic period beginning the same calendar year in which the payment was made. An exception, however, allows the taxpayer to claim a tax credit, if otherwise eligible, for payment of qualified tuition and related expenses made during the calendar year to cover an academic period that begins in January, February or March of the following tax year. Consult a tax professional for tax return preparation advice.

Please note: No qualified tuition and related expenses paid in a prior year may be used in calculating a tax credit or deduction for a subsequent tax year.

Q7. I paid my qualified tuition and related expenses with student loans. Can I still claim a tax credit?

A7. Yes. Loan funds should be considered in the same manner as cash payments when calculating a tax credit. However, any scholarships, grants, or other non-taxable aid must be deducted from the amount of qualified tuition and related expenses paid.

Q8. What options are available for receiving this form electronically?

A8. You can visit www.1098T.com and consent to electronic delivery of future 1098-T forms. Once the forms are complete, you receive an email notification from TCRS to your designated email address directing you to the web site for form review and retrieval.

This information contained within this brochure may not reflect recent revisions in IRS regulations. Please check with the IRS at www.irs.gov or your tax preparer/advisor to ensure that you have the most recent information available.

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2010 Tax Benefits for Higher Education



The American Opportunity Credit (Hope Credit) and Lifetime Learning Tax Credits & the Higher Education Tuition and Fees Deduction

For more information and consent for *electronic delivery* of 1098-Ts visit the TCRS student web site at www.1098T.com.



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IMPORTANT NOTICE

When this brochure went to print, the IRS had not updated Publication 970 for the 2010 tax year. This publication contains information regarding education tax benefits and related income limits; therefore, the information contained within this brochure may not reflect recent revisions in IRS regulations. Please check the IRS website at www.irs.gov or your tax preparer/advisor to ensure that you have the most recent information available regarding Higher Education Tax Benefits available to you.

The 1098-T form is used by eligible educational institutions to report information about their students to the IRS as required by the Taxpayer Relief Act of 1997. Eligible educational institutions are required to submit the student's name, address, taxpayer identification number (TIN), enrollment and academic status, amount of qualified tuition and related expenses billed to or paid by the student, and if applicable, scholarship amounts whether taxable or not.

Institutions may elect to report either the aggregate amount of payments received for qualified tuition and related expenses (box 1), or the aggregate amount billed for qualified tuition and related expenses (box 2) for individuals enrolled during the calendar year. However, the credits are allowable only for amounts paid during the year and not amounts reported as billed, but not paid, during the year.

To claim the American Opportunity (Hope) Tax Credit or Lifetime Learning Tax Credit, the eligible taxpayer should use IRS Form 8863. To claim the Higher Education Tuition and Fees Deduction, the eligible taxpayer should use IRS Form 8917. Additional information for calculating a credit can be found in IRS Publication 970, which is available at www.1098T.com or www.irs.gov.

When claiming a tax credit or deduction, the taxpayer's financial records serve as the official supporting documentation for calculating the amount being claimed.

❖ **American Opportunity (Hope) Tax Credit**

Value: 100 percent of the first \$2,000 plus 25 percent of the next \$2,000 paid for each eligible student's qualified tuition and related expenses, less any non-taxable gift aid (e.g., grants and scholarships). (*Qualified expenses paid with student loans are eligible – see Question 7 under FAQs.*) The **maximum credit is \$2,500 for each** eligible student or the amount of the tax liability whichever is less.

Income Limits: For single tax filers, a modified adjusted gross income (MAGI) of up to \$90,000 with a gradual phase-out of the credit beginning at \$80,000 (\$180,000 and \$160,000 for joint filers.)

Eligible Education: Students must have met all of the following eligibility criteria –

- Enrolled in one of the **first four years** of post-secondary education at an eligible educational institution;
- Enrolled at least half-time for at least one academic period during the tax year (*or in certain circumstances during January, February, or March of the following year – see Question 6 under FAQs*);
- Enrolled in a program that leads to a degree, certificate, or other recognized educational credential; and
- Free of any felony conviction for possessing or distributing a controlled substance.

Additional Modifications under the ARRA:

- The term “qualified tuition and related expenses” has been expanded to include course materials such as books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the institution as a condition of enrollment.
- 40 percent of the credit is now refundable up to \$1,000 even if you owe no taxes.

❖ **Lifetime Learning Tax Credit**

Value: 20 percent of the first \$10,000 paid for qualified tuition and related expenses, less any non-taxable gift aid (e.g., grants and scholarships), for all eligible students in the family. (*Qualified expenses paid with student loans are eligible – see Question 7 under FAQs.*) The **maximum credit is \$2,000 per tax filer** or the amount of tax liability whichever is less. This credit may be claimed for an unlimited number of years.

Income Limits: For single filer, a MAGI of up to \$60,000 with a gradual phase-out of the credit beginning at \$50,000 (\$120,000 and \$100,000 for joint filers.)

Eligible Education: Students must have been enrolled in one or more courses leading to an undergraduate degree, graduate degree, certificate, other recognized credential, or to acquire or improve job skills at an eligible school during the tax year (*or in certain circumstances during January, February, or March of the following year – see Question 6 under FAQs*).

❖ **Higher Education Tuition and Fees Deduction**

Value: The maximum deduction is \$4,000 paid for qualified tuition and related expenses, less any non-taxable gift aid (e.g. grants and scholarships), for all eligible students in the family.

Income Limits: For single tax filers, the deduction is reduced from \$4,000 to \$2,000 if your MAGI is between \$65,000 and \$80,000 (\$130,000 and \$160,000 for joint filers). Single filers with income exceeding \$80,000 (\$160,000 for joint filers) are ineligible for the deduction.

Eligible Education: Any course or courses in which a student is enrolled at an eligible educational institution. The deduction can not be claimed for the same student in the same year as an American Opportunity (Hope) or Lifetime Learning Tax Credit.