



Education Tax Credits for College and Work Skills: The Hope Credit and the Lifetime Learning Credit

Two tax credits are available to families and students to help them meet the cost of post secondary education. The Hope Credit and the Lifetime Learning Credit can make education more affordable for people who might not otherwise be able to attend college. The credits encourage workers to return to school to improve their skills and increase their earning ability. These credits differ from the Earned Income Credit in that they are not refundable. But the credits can reduce the amount of taxes filers owe. Filers who claim an education tax credit may also claim the EIC and Child Tax Credit, if they qualify.

Who is Eligible to Claim Education Credits?

The credits may be claimed by tax filers who pay for “qualified educational expenses,” whether for themselves, their spouse or their dependents, at an “eligible educational institution.” For filers to be eligible:

- Adjusted gross income in 2008 must be less than \$58,000 (\$116,000 if married)
- Immigrants who are resident aliens for tax purposes may also claim these credits

Qualified Educational Expenses for the Education Credits Include:

- Tuition – The amount of tuition *after* tax-free contributions have been subtracted, such as:
- Scholarships
- Fellowships
- Pell Grants
- Employer Assistance
- Veterans Assistance
- Other expenses *required* for enrollment at an educational institution, such as student activity fees and course-related materials, paid as a condition of enrollment

The following are not qualifying expenses, even if required by the institution:

- insurance, medical expenses, room and board, transportation, other living or family expenses and childcare

Eligible Educational Institutions:

- Colleges
- Universities
- Vocational Schools
- Accredited public, private, nonprofit, postsecondary schools eligible to participate in Student Aid programs of the U.S. Department of Education

How Much Is the Hope Credit Worth?

The Hope Credit is available for students who are in their first or second year of college and are pursuing an undergraduate degree. The credit is figured by taking 100 percent of the first \$1,100 paid towards the student’s qualified educational expenses, then adding 50 percent of the next \$1,100 in educational expenses. The maximum credit possible is \$1,800 (\$3,600 for students in Midwestern disaster areas).

How Much is the Lifetime Learning Credit Worth?

The Lifetime Learning Credit is available for students at any point in their post-secondary education. The credit is figured by calculating 20 percent of the first \$10,000 of educational expenses. The

maximum credit is \$2,000 for one household, regardless of the number of eligible students in the family.

Example: Carrie earned \$27,500 as an administrative assistant at DieCorp in 2008. DieCorp agreed to pay a third of Carrie’s expenses if she went back to school to get credentials as a bookkeeper. Carrie enrolled in the local community college for an accounting class. Tuition for the class was \$865; DieCorp’s share is \$288. Carrie is eligible to claim the Lifetime Learning Credit. She can’t claim the Hope Credit because she is not in her first or second year of college. To figure her credit, Carrie determines she can claim a tuition expense of \$577 by subtracting her employer’s contribution from her total tuition (\$865- \$288= \$577). Since the Lifetime Learning Credit is 20 percent of the first \$10,000 of eligible expenses, Carrie’s Lifetime Learning Credit would be \$115 (\$577 x 20 percent = \$115).

Claiming the Hope and Lifetime Learning Credits

[IRS Form 8863](#) is required to claim either credit. Form 8863 must be attached to the tax return (Form 1040 or 1040 A). *For more information see IRS [Publication 970 “Tax Benefits for Education.”](#)*

Differences in Rules for the Hope Credit and Lifetime Learning Credit	
Hope Credit	Lifetime Learning Credit
1st & 2nd year post- secondary students	Students in any year of college or courses to acquire job skills
Student must be pursuing undergraduate degree or other educational credentials	No degree or course study requirements
Must be enrolled at least half time	Enrolled in a minimum of one course
May not have felony convictions for possession of drugs or intent to distribute	Felony drug rule does not apply
Student is not claiming Lifetime Learning Credit	Student is not claiming Hope Credit

Education Credits Increased for Survivors of the 2005 Hurricanes

For both 2005 and 2006, Congress doubled the amounts that can be claimed under the Hope Credit and the Lifetime Learning Credit for students attending educational institutions in areas hit by hurricanes Katrina, Rita and Wilma. The definition of qualified educational expenses was also expanded for these students. For more information on hurricane-related rules, see [IRS Publication 4492](#). These changes still apply to prior year returns filed for 2005 and 2006.

Hope Credit:

100% of the first \$2,000 in qualified education expenses
 50% of the next \$2,000 in qualified education expenses
 Maximum credit: \$3,000

Lifetime Learning Credit:

40% of the first \$10,000 in qualified education expenses
 Maximum credit: \$4,000

Qualified Educational Expenses:

Books, supplies and equipment for enrollment
 Expenses necessary for special needs students to enroll
 Room and Board, up to the maximum allowed as charged by the institution