



Education Tax Credits for College and Job Training

New Credit for College Takes Effect in 2009

As part of economic recovery legislation in 2009, Congress enacted the American Opportunity Tax Credit (AOTC) for 2009 and 2010. This new credit expands the previous Hope Credit. The AOTC can make education more affordable for many more low-income families and students who might not otherwise be able to attend college. The Lifetime Learning Credit continues to be available to enable individuals to improve their job skills and increase their earning ability. Tax filers who claim an education tax credit may also claim the EIC and Child Tax Credit, if they qualify.

The AOTC is partly refundable. The major change to the previous Hope Credit rules is that up to \$1,000 of the AOTC may be claimed even if the individual earns too little to owe income tax.

Who is Eligible to Claim the AOTC?

The AOTC is available for students who are in their first four years of college (the Hope Credit covered only the first two years) and are pursuing an undergraduate degree. Filers may be eligible for the AOTC if they:

- paid for “qualified educational expenses,” whether for themselves, their spouse or their dependents, at an “eligible educational institution,” and
- have adjusted gross income in 2009 less than

\$80,000; \$160,000 if married (these limits are higher than under the Hope Credit rules). The amount of the AOTC phases-out at income levels above this.

- Immigrants who are resident aliens for tax purposes may also claim the AOTC.

Qualified Educational Expenses for the AOTC Include:

Tuition – the amount of tuition after tax-free contributions have been subtracted, such as:

- Scholarships
- Pell Grants
- Veterans Assistance
- Fellowships
- Employer Assistance

Course-related materials, whether or not they are required for enrollment at an educational institution.

The following are not qualifying expenses: insurance, medical expenses, room and board, transportation, other living or family expenses, and childcare.

Eligible Educational Institutions

- Colleges, universities, vocational schools
- Accredited schools eligible to participate in Student Aid programs of the U.S. Department of Education

How Much Is the AOTC Worth?

The AOTC is now worth up to \$2,500 — an increase from the Hope Credit’s maximum of \$1,800. The AOTC is figured by taking the first \$2,000 paid towards the student’s qualified educational expenses, and adding 25 percent of the next \$2,000 in educational expenses, up to \$2,500.

The AOTC provides a refundable credit worth 40% of this total, up to \$1,000. If no income tax is owed, the filer still qualifies for an AOTC up to \$1,000. If tax is owed, the balance of the credit is used to reduce the filer's tax liability.

For example, Maggie earned \$25,000 in 2009 and attended college half-time working toward her degree. Her tuition for the year was \$5,000. She owes \$1,565 in income tax. She qualifies for a maximum AOTC of \$2,500 (first \$2,000 in expenses + 25% of the next \$2,000 in expenses):

- a refundable credit of \$1,000 (40% of \$2,500), is subtracted from her maximum credit of \$2,500, leaving a balance of \$1,500;
- this reduces her \$1,565 income tax to \$65.

The Lifetime Learning Credit

For students not pursuing a degree, the Lifetime Learning Credit is available at any point in their post-secondary education. For filers to be eligible for the full credit, adjusted gross income in 2009 must be less than \$50,000 (\$100,000 if married). The credit is 20 percent of the first \$10,000 of qualified educational expenses, up to \$2,000 per household, regardless of the number of

eligible students in the family. Unlike the AOTC, this credit only reduces income tax, and won't benefit families that owe no tax.

Special Option for Midwest Disaster Areas

For 2008, Congress doubled the amounts that can be claimed under the Hope Credit and the Lifetime Learning Credit for students attending educational institutions in Midwestern disaster areas. This made the Hope Credit worth a maximum of \$3,600 in these areas, compared to the AOTC maximum of \$2,500. The filer has the option to use the prior year Hope Credit rules. For details on how to file and a list of counties where these rules apply, see *IRS Publication 970 "Tax Benefits for Education."*

Claiming the AOTC 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 1040A). *For more information see IRS Publication 970 "Tax Benefits for Education."*

Differences in Rules for the AOTC and Lifetime Learning Credit

American Opportunity Tax Credit

First four years post-secondary students

Student must be pursuing undergraduate degree or other educational credentials

Must be enrolled at least half-time

May not have felony convictions for possession of drugs or intent to distribute

Student is not claiming Lifetime Learning Credit

Lifetime Learning Credit

Students in any year of college or courses to acquire job skills

No degree or course study requirements

Enrolled in a minimum of one course

Felony drug rule does not apply

Student is not claiming AOTC