



Getting Credit: Tax Credits Increase Education Affordability

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Disclaimer

- Today's discussion including tax credit types, amounts and income thresholds are current as of today. Future congressional actions and IRS rulings may invalidate some or all of the information presented.

Objectives

Participants will:

- Learn about IRS resources regarding impact of education expenses on federal taxes
- Learn about 3 education deductions and 3 education credits
- Consider integrating knowledge of education tax benefits into work with adult students

Goals

- Assist you in understanding various tax benefits available to adult learners to make education more affordable.
- Increase student retention numbers – decrease attrition rates attributed to financial difficulties.



Department of the Treasury
Internal Revenue Service

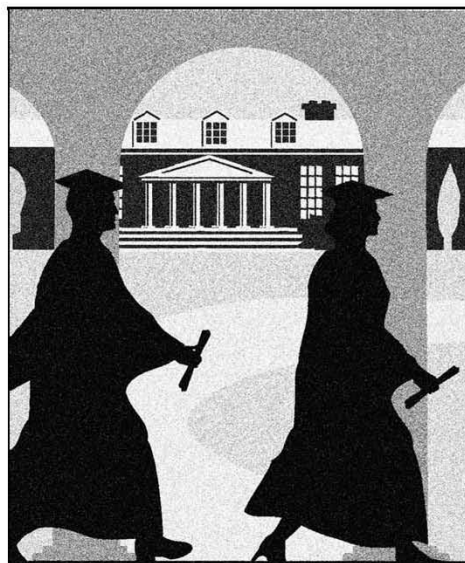
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Tax Benefits for Education

For use in preparing

2009 Returns



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FAFSA

Free Application for Federal Student Aid

- Filing Deadline March 1 vs. tax filing deadline of April 15
- Use last year's data and make updates after taxes are filed.
- Save money and time by filing income taxes with accurate information

Taxation

- We pay taxes for a variety of reasons
- Taxes are imposed to generate revenue
- To discourage certain behaviors
- To encourage certain behaviors

Filing Status – IRS Definitions

- Single
- Head of Household
- Married Filing Jointly
- Married Filing Separately*
- Qualifying Widow(er) with Dependent Child

Taxpayer = Household

- Taxpayer
- Spouse
- Dependents (IRS definition)
 - Determined by relationship, age, support, residence

Deduction and Credit Eligibility

- Type of education
- Enrollment status

Deductions vs. Credits

- A deduction reduces your taxable INCOME
- A credit reduces your TAX
 - Nonrefundable reduce tax to zero
 - Refundable credits provide money even if no taxes are due

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return 2009 (09) IRB Use Only—Do not write or staple in this space

Label (See instructions on page 14.)
Use the IRS label.
 Otherwise, please print or type.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) ☐ **You** ☐ **Spouse**

Filing Status
 1 ☐ Single
 2 ☐ Married filing jointly (even if only one had income)
 3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ☐ 5 ☐ Qualifying widow(er) with dependent child (see page 16)

Exemptions
 6a ☐ Yourself. If someone can claim you as a dependent, do not check box 6a.
 b ☐ Spouse
 c **Dependents:**
 (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) ☒ If qualifying child for child tax credit (see page 17)
 d Total number of exemptions claimed

Income
 7 Wages, salaries, tips, etc. Attach Form(s) W-2
 8a Taxable interest. Attach Schedule B if required
 8b Tax-exempt interest. Do not include on line 8a
 9a Ordinary dividends. Attach Schedule B if required
 9b Qualified dividends (see page 22)
 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 23)
 11 Alimony received
 12 Business income or (loss). Attach Schedule C or C-EZ
 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ☐
 14 Other gains or (losses). Attach Form 4797
 15a IRA distributions 15a b Taxable amount (see page 24)
 16a Pensions and annuities 16a b Taxable amount (see page 25)
 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E
 18 Farm income or (loss). Attach Schedule F
 19 Unemployment compensation in excess of \$2,400 per recipient (see page 27)
 20a Social security benefits 20a b Taxable amount (see page 27)
 21 Other income. List type and amount (see page 29)
 22 Add the amounts in the far right column for lines 7 through 21. This is your **total income**
 23 Educator expenses (see page 29)
 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ
 25 Health savings account deduction. Attach Form 8889
 26 Moving expenses. Attach Form 3903
 27 One-half of self-employment tax. Attach Schedule SE
 28 Self-employed SEP, SIMPLE, and qualified plans
 29 Self-employed health insurance deduction (see page 30)
 30 Penalty on early withdrawal of savings
 31a Alimony paid b Recipient's SSN
 31b IRA deduction (see page 31)
 33 Student loan interest deduction (see page 34)
 34 Tuition and fees deduction. Attach Form 8917
 35 Domestic production activities deduction. Attach Form 8805
 36 Add lines 23 through 31a and 32 through 35
 37 Subtract line 36 from line 22. This is your **adjusted gross income**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 97. Cat. No. 11320B Form 1040 (2009)

Form 1040 (2009) Page 2

Tax and Credits
 38 Amount from line 37 (adjusted gross income)
 39a Check ☐ You were born before January 2, 1945, ☐ Blind. Total boxes checked ☐ 39a
 b If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here ☐ 39b
 40a Itemized deductions (from Schedule A) or your standard deduction (see left margin)
 40b If you are increasing your standard deduction by certain real estate taxes, new motor vehicle taxes, or a net disaster loss, attach Schedule L and check here (see page 35) ☐ 40b
 41 Subtract line 40a from line 38
 42 Exemptions. If line 38 is \$125,000 or less and you did not provide housing to a Midwestern displaced individual, multiply \$3,650 by the number on line 6d. Otherwise, see page 37
 43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-
 44 Tax (see page 37). Check if any tax is from: a ☐ Form(s) 8814 b ☐ Form 4972
 45 Alternative minimum tax (see page 40). Attach Form 6251
 46 Add lines 44 and 45
 47 Foreign tax credit. Attach Form 1116 if required
 48 Credit for child and dependent care expenses. Attach Form 2441
 49 Education credits from Form 8863, line 29
 50 Retirement savings contributions credit. Attach Form 8880
 51 Child tax credit (see page 42)
 52 Credits from Form: a ☐ 8396 b ☐ 8839 c ☐ 6965
 53 Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐
 54 Add lines 47 through 53. These are your total credits
 55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-
 56 Self-employment tax. Attach Schedule SE
 57 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919
 58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required
 59 Additional taxes: a ☐ AEC payments b ☐ Household employment taxes. Attach Schedule H
 60 Add lines 55 through 59. This is your **total tax**
Payments
 61 Federal income tax withheld from Forms W-2 and 1099
 62 2009 estimated tax payments and amount applied from 2008 return
 63 Making work pay and government retiree credits. Attach Schedule M
 64a Earned income credit (EIC)
 b Nontaxable combat pay election
 65 Additional child tax credit. Attach Form 8812
 66 Refundable education credit from Form 8863, line 16
 67 First-time homebuyer credit. Attach Form 5405
 68 Amount paid with request for extension to file (see page 72)
 69 Excess social security and tier 1 RRTA tax withheld (see page 72)
 70 Credits from Form: a ☐ 2439 b ☐ 4136 c ☐ 8801 d ☐ 8885
 71 Add lines 61, 62, 63, 64a, and 65 through 70. These are your **total payments**
 72 If line 71 is more than line 60, subtract line 60 from line 71. This is the amount you **overpaid**
 73a Amount of line 72 you want refunded to you. If Form 8888 is attached, check here ☐ 73a
 b Routing number c Type: ☐ Checking ☐ Savings
 d Account number
 74 Amount of line 72 you want applied to your 2010 estimated tax
Amount You Owe
 75 Amount you owe. Subtract line 71 from line 60. For details on how to pay, see page 74
 76 Estimated tax penalty (see page 74)
Third Party Designee
 Do you want to allow another person to discuss this return with the IRS (see page 75)? ☐ Yes. Complete the following. ☐ No
 Designee's name Phone no. Personal identification number (PIN)
Sign Here
 Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.
 Your signature Date Your occupation Daytime phone number
 Spouse's signature. If a joint return, both must sign. Date Spouse's occupation
Paid Preparer's Use Only
 Preparer's signature Date Check if self-employed ☐
 Firm's name (or yours if self-employed), address, and ZIP code EIN Phone no.

Form 1040 (2009)

Deductions

- Education Loan Interest
- Tuition and Fees
- Business Deductions – Work-related expenses

Deduction Education Loan Interest

- Education Loan interest – interest paid on any type of loan where funds were used to further education
- Up to \$2,500 interest deductible/year

FILING STATUS	AGI PHASE-OUT
Unmarried	\$60-\$75,000
Married Filing Jointly	\$120-\$150,000

Deduction: Tuition and Fees

Qualified Higher Education Expenses

Eligible Educational Institution

No double benefit allowed

Maximum Deduction	\$4,000	\$2,000
Unmarried AGI cutoff	\$65,000	\$80,000
Married Filing Jointly cutoff	\$130,000	\$160,000

Deduction: Business Deduction

Work-related Expenses

- Must itemize deductions (ed. expenses that amount $>2\%$ of AGI)
- Employee or self-employed
- Mileage at \$.55/mile to and from school
- Education required to keep your present job, serves business purpose of employer, doesn't qualify you for new trade or business.

Credits

- Hope Scholarship
- American Opportunity
- Lifetime Learning

Hope Scholarship Credit

- Nonrefundable
- First two years of post-secondary education, at least 12 credits
- Calculated per student
- Expanded for 2009-2010 to the American Opportunity Credit
- Maximum value of \$1,800

American Opportunity Credit

- Per student —enrolled at least half time
- First four years of post-secondary education
- 100% up to \$2,000 of qualified expenses incl. books, supplies, materials
- 25% on next \$2,000
- Phase-out
 - Single \$80-\$90,000
 - MFJ \$160-\$180,000
- Up to \$1,000 is refundable

Lifetime Learning Credit

- Per household
- Defines education more broadly
- 20% credit up to \$10,000 expenses
- Non-refundable
- Phase outs

Single	\$50-\$60,000
Married Filing Jointly	\$100-\$120,000

Employer Provided Benefit

- Benefits up to \$5,250 excludable from taxable income
- Can't use tax-free education expenses paid by employer to claim tax deductions or credits

U.S. Savings Bonds

- EE and I bonds Interest is tax-free
 - Purchased after 1989
 - Purchaser aged 24 or older
 - Redeemed same year as education expenses incurred

FILING STATUS	AGI PHASE-OUT
Single	\$70,100-\$85,100
Married Filing Jointly	\$105,300-\$135,100

Coverdell Education Savings Account

- \$2,000 annual contribution per beneficiary non-deductible BUT interest / growth is tax-free
- Established beneficiary younger than 18 spent by age 30
- Transferable to family members
- Allowable tuition, fees, room and board

FILING STATUS	AGI PHASE-OUT
Single	\$95-\$110,000
Married filing jointly	\$190-\$220,000

Section 529 Plans

Qualified Tuition Program (QTP)

- Contributions \$13,000 per PA taxpayer/year deductible from state income but not federal
- Growth/interest tax-free if used for qualified education expenses.
- Transferrable to family members

Federal vs. State Education Tax Benefits

- Contributions to Section 529
 - Contributions and growth state tax free
 - Growth federally tax free
- Contributions to Coverdell Education Savings
 - Growth federally tax free

Coordinating Tax benefits

- NO double dip
- Excess withdrawals beyond allowable education expenses from tax-preferred accounts can result in taxation

Alternative Funding Sources

- 401K or 403B
- Traditional IRA
- Roth IRA
- Home Equity (loan or line of credit)

2009 Education Tax Benefit Highlights

	Scholarships, Fellowships, Grants, and Tuition Reductions	American Opportunity Credit	Hope Credit	Lifetime Learning Credit	Student Loan Interest Deduction	Tuition and Fees Deduction
What is your benefit?	Amounts received may not be taxable	40% of credit may be refundable (limited to \$1,000)	Credits can reduce amount of tax you must pay		Can deduct interest paid	Can deduct expenses
What is the annual limit?	None	\$2,500	\$1,800 credit (\$3,600 if a student in a Midwestern disaster area) per student	\$2,000 credit (\$4,000 if a student in a Midwestern disaster area) per tax return	\$2,500 deduction	\$4,000 deduction
What expenses qualify besides tuition and required enrollment fees?	Course-related expenses such as fees, books, supplies, and equipment	Course-related books, supplies, and equipment	None (but see <i>Students in Midwestern disaster areas</i> under <i>Qualified Education Expenses</i> in chapter 3 for an exception)	None (but see <i>Students in Midwestern disaster areas</i> under <i>Qualified Education Expenses</i> in chapter 4 for an exception)	Books Supplies Equipment Room & board Transportation Other necessary expenses	None (but see <i>Students in Midwestern disaster areas</i> under <i>Qualified Education Expenses</i> in chapter 7 for an exception)
What education qualifies?	Undergraduate & graduate K–12	1st 4 years of undergraduate (postsecondary)	1st 2 years of undergraduate (postsecondary)	Undergraduate & graduate Courses to acquire or improve job skills	Undergraduate & graduate	Undergraduate & graduate
What are some of the other conditions that apply?	Must be in degree or vocational program Payment of tuition and required fees must be allowed under the grant	Can be claimed for only 4 tax years (which includes years Hope credit claimed) Must be enrolled at least half-time in degree program No felony drug conviction(s) Cannot claim Hope credit on same return	Can be claimed for only 2 tax years Must be enrolled at least half-time in degree program Must claim the credit for at least one eligible Midwestern disaster area student No felony drug conviction(s) Cannot claim American opportunity credit on same return	No other conditions	Must have been at least half-time student in degree program	Cannot claim both deduction & education credit for same student in same year
In what income range do benefits phase out?	No phaseout	\$80,000 – \$90,000 \$160,000 – \$180,000 for joint returns	\$50,000 – \$60,000 \$100,000 – \$120,000 for joint returns		\$60,000 – \$75,000 \$120,000 – \$150,000 for joint returns	\$65,000 – \$80,000 \$130,000 – \$160,000 for joint returns

2009 Education Tax Benefit Highlights

	Coverdell ESA [†]	Qualified Tuition Program (QTP) [†]	Education Exception to Additional Tax on Early IRA Distributions [†]	Education Savings Bond Program [†]	Employer-Provided Educational Assistance [†]	Business Deduction for Work-Related Education
What is your benefit?	Earnings not taxed	Earnings not taxed	No 10% additional tax on early distribution	Interest not taxed	Employer benefits not taxed	Can deduct expenses
What is the annual limit?	\$2,000 contribution per beneficiary	None	Amount of qualified education expenses	Amount of qualified education expenses	\$5,250 exclusion	Amount of qualifying work-related education expenses
What expenses qualify besides tuition and required enrollment fees?	Books Supplies Equipment Expenses for special needs services Payments to QTP Higher education: Room & board if at least half-time student Elem/sec (K–12) education: Tutoring Room & board Uniforms Transportation Computer access Supplementary expenses	Books Supplies Equipment Room & board if at least half-time student Expenses for special needs services Computer technology, equipment, and Internet access (2009 and 2010)	Books Supplies Equipment Room & board if at least half-time student Expenses for special needs services	Payments to Coverdell ESA Payments to QTP	Books Supplies Equipment	Transportation Travel Other necessary expenses
What education qualifies?	Undergraduate & graduate K–12	Undergraduate & graduate	Undergraduate & graduate	Undergraduate & graduate	Undergraduate & graduate	Required by employer or law to keep present job, salary, status Maintain or improve job skills
What are some of the other conditions that apply?	Assets must be distributed at age 30 unless special needs beneficiary	No other conditions	No other conditions	Applies only to qualified series EE bonds issued after 1989 or series I bonds	No other conditions	Cannot be to meet minimum educational requirements of present trade/business Cannot qualify you for new trade/business
In what income range do benefits phase out?	\$95,000 – \$110,000 \$190,000 – \$220,000 for joint returns	No phaseout	No phaseout	\$69,950 – \$84,950 \$104,900 – \$134,900 for joint and qualifying widow(er) returns	No phaseout	May be subject to limit on itemized deductions

[†] Any nontaxable distribution is limited to the amount that does not exceed qualified education expenses.

Review

- Filing status impacts phase outs for various deductions and credits
- Dependent status impacts who can claim credits
- Rules change annually (or as new legislation/rules are made)
- Resources: IRS publication 970

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