

## Education Credits

As a community college student, you are eligible to receive education tax credits that can reduce the expense of your education. There are two education tax credits available, the **Hope Credit** and the **Lifetime Learning Credit**. The credits are based on education expenses paid for you, your spouse, or your dependents. The credits are allowed for qualified education expenses paid in 2008 for an academic period that begins in 2008 or during the first three months of 2009.

### The Hope Credit

For the 2008 tax year, a family or student can claim up to \$1,800, for each eligible student for up to two tax years (100% of the first \$1,200 and 50% of the second \$1,200 paid for qualified expenses). The Hope credit is only available until each student's first two years of postsecondary education are complete.

The exact amount of the Hope credit also depends on a family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. The total credit is also based on how many eligible students are in a family. This differs from the Lifetime Learning Credit which sets a maximum dollar amount for a family.

Qualified expenses do not include room and board, insurance, transportation, or other similar personal, living, or family expenses. Qualified expenses may include fees for books, supplies, and equipment only if the fees must be paid to the school for the student's enrollment or attendance. In addition, qualified expenses may include student activity fees if the fee must be paid to the school for the student's enrollment or attendance.

### Who Qualifies?

**The Taxpayer:** An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope credit. The taxpayer must also claim an eligible student as a dependent on the tax return, unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) In 2008, taxpayers cannot claim a Hope credit if their modified adjusted gross income (AGI) is \$58,000 or more for a single taxpayer (\$116,000 or more for those filing a joint return). The Hope credit amount is reduced gradually for families with incomes between \$48,000 and \$58,000 (\$96,000 and \$116,000 for joint returns).

**The Student:** An eligible student must be enrolled at least half-time for at least one academic period beginning in 2008 at an eligible program leading to a degree or certificate at an eligible school **AND** can not have completed the first two years of undergraduate study. You may claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student may also be the eligible taxpayer.) Students convicted of a federal or state drug felony before the end of 2008 are not eligible for the Hope credit.

A family may claim a Lifetime Learning credit, a Hope credit, and an exclusion from gross income for certain distributions from qualified state tuition programs or education IRAs as long as the same student isn't used as the basis for each credit or exclusion **AND** the family doesn't exceed the Lifetime Learning maximum per family.

## **The Lifetime Learning Credit**

### **What Is It?**

The Lifetime Learning Credit is a nonrefundable tax credit available to individuals who file a tax return and owe taxes. The amount of the credit is subtracted from the taxes owed, rather than reducing taxable income as with a tax deduction. Individuals who do not pay taxes are not eligible for a Lifetime Learning credit. If a taxpayer owes less in taxes than the amount of Lifetime Learning tax credit they are eligible for, they are only eligible for a credit equal to the amount of taxes they owe.

A family may claim a tax credit of up to \$2,000 per tax year for the taxpayer, taxpayer's spouse, or any eligible dependents for an unlimited number of tax years. The amount of the Lifetime Learning credit is 20% of the first \$10,000 of qualified educational expenses paid for all eligible students. Therefore, the maximum amount of a Lifetime Learning tax credit is \$2,000. The Lifetime Learning credit is available for all years of postsecondary education and for courses taken to acquire or improve job skills, unlike the Hope credit which is only available for two years.

The actual amount of the credit depends on a family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. This credit is family-based (up to \$2,000 per tax return), unlike the Hope credit which is based on the number of eligible dependents in a family.

### **Who Qualifies?**

**The Taxpayer:** An eligible taxpayer must file a tax return and owe taxes to claim the credit. The taxpayer must also claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) In 2008, those with a modified Adjusted Gross Income (AGI) of \$58,000 or more (if single), or \$116,000 or more (for married taxpayers filing a joint return) cannot claim a Lifetime Learning Credit. AGI limits were increased by \$1,000 for single taxpayers and \$2,000 married taxpayers for the 2008 tax year. The Lifetime Learning Tax Credit amount is reduced gradually for families with incomes between \$48,000 and \$58,000 if single, or \$96,000 and \$116,000 if married and filing jointly. Taxpayers that claim the Hope credit or tuition and fees deduction for a student are not eligible to claim the Lifetime Learning credit for the same student.

**The Student:** An eligible student may be enrolled in an eligible program leading to an undergraduate or graduate degree at an eligible school during the calendar year **OR** may be enrolled in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. Students may claim the credit themselves if

they are not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student may also be the eligible taxpayer.)

### **How Do You Get The Credits?**

To apply for the credit, the taxpayer must report the amount of qualified tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. Schools must send this information to taxpayers and to the IRS by January 31, 2009, in the form of a **1098-T statement**. Taxpayers will use this information and their own records about tuition and fees paid when they fill out the IRS Form 8863 to claim the tax credit. The statement sent by the school will also include contact information for someone at the school who can answer questions about the information on the form. A taxpayer may wish to talk to a tax advisor for help in calculating the amount of its credit.

### **When Is It Available?**

Generally, the deduction is allowed for qualified tuition and expenses paid in 2008 in connection with enrollment at an institution of higher education during 2008 or for an academic period beginning in 2008 or in the first three months of 2009. For instance, if you paid \$1,500 in December 2008 for qualified tuition for a spring 2008 semester that begins in January 2009, that \$1,500 can be used to figure the 2008 deduction.

**For answers to some frequently asked questions, refer to <http://www.irs.gov/faqs/faq-kw52.html> and for additional information on education credits, refer to [Publication 970](#), *Tax Benefits for Education*.**