

# Hope Scholarship & Lifetime Learning Tax Credits Information

## SAVE YOUR TAX DOLLARS!

Attending a North Carolina community college is more affordable than ever. Tuition at North Carolina's community colleges is among the lowest in the country. Also, federal Pell Grants provide financial assistance to many students attending one of our 58 community colleges.

In addition to federal assistance available, the North Carolina General Assembly provides a generous financial aid fund for community college students. Need-based grants are available to full and part-time students.

Students with qualifying income levels can also take advantage of federal tax incentives to make attending a North Carolina community college even more financially attainable. The **Hope Scholarship** and **Lifetime Learning Tax Credits** are available to community college students.

The **Hope Scholarship** tax credit may be claimed for payments of qualified tuition and related expenses made on or after January 1, 2005, for academic periods beginning on or after January 1, 2005.

The **Lifetime Learning Credit** may be claimed for the same expenses made on or after January 1, 2005. If a taxpayer is claiming a credit for the Hope Scholarship for a particular student, none of that student's expenses for that year may apply toward the Lifetime Learning Credit.

### How much can a taxpayer claim?

For the **Hope Scholarship**, a taxpayer may claim a credit of 100 percent of the first \$1,000 of out-of-pocket expenses for each student's qualified tuition and related expenses, plus 50 percent of the next \$1,000. Thus, the maximum credit a taxpayer may claim for a taxable year is \$1,500 multiplied by the number of students in the family who meet the enrollment criteria.

For the **Lifetime Learning Credit**, the credit amount is equal to 20 percent of the taxpayer's first \$10,000 of out-of-pocket qualified tuition and related expenses; thus the maximum for a taxable year is \$2,000. The Lifetime Learning Credit is calculated on a per-family rather than a per-student basis. The amounts a taxpayer may claim are gradually reduced based on their income.

### What criteria must a student must meet to be eligible?

Credit may be claimed for the qualified tuition and related expenses of each student in the taxpayer's family (i.e., the taxpayer, the taxpayer's spouse, or an eligible dependent).

### Who may claim the tax credit?

An individual may claim the credit for his/her own qualified tuition and related expenses and the qualified tuition and related expenses of his/her spouse and other eligible dependents (including children) for whom the dependency exemption is claimed. Generally, a parent may claim the dependency exemption for his/her unmarried child if: (1) the parent supplies more than half the child's support for the taxable year, and (2) the child is under age 19 or is a full-time student under age 24.

### What are "qualified tuition and related expenses" for a community college?

Qualified tuition and related expenses are the tuition and fees a student is required to pay in order to attend a community college. The eligible courses to receive the Credit must be courses that will lead the student toward a degree or certificate or other recognized educational credential. It does not include courses involving sports, games or hobbies unless it is part of the degree program.

### Does any type of payment for education expenses qualify?

The student may take into account only out-of-pocket expenses in calculating the credit. Qualified tuition and related expenses paid with the student's earnings, a loan, a gift, an inheritance, or personal savings are taken into account in calculating the credit amount. However, qualified tuition and related expenses paid with a Pell Grant or other tax-free scholarship, a tax-free distribution from an Education IRA, or tax-free employer-provided educational assistance are not taken into account in calculating the credit amount.

**Is there a maximum income limit to be eligible to claim the tax credit?**

The amount a taxpayer may claim as a credit is gradually reduced for taxpayers with a modified adjusted gross income that falls below a specified amount. However, maximum income limits have been increased. You cannot claim a credit if your modified adjusted gross income (MAGI) is \$53,000 or more (\$107,000 if you file a joint return).

<b>Comparison of Education Credits</b>	
<b>Hope Credit</b>	<b>Lifetime Learning Credit</b>
Up to \$1,500 credit per <b>eligible student</b>	Up to \$2,000 credit per <b>return</b>
Available <b>ONLY</b> until the first 2 years of postsecondary education are completed	Available for all years of postsecondary education and for course to improve or acquire job skills
Available <b>ONLY</b> for 2 years per eligible student	Available for an unlimited number of years
Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree of other recognized education credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply

For more information: <http://www.irs.gov/pub/irs-pdf/p970.pdf>

**This information is not a substitute for professional tax advice.**