



Module 8A: TAX BENEFITS FOR EDUCATION OVERVIEW

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By the end of this module you will...

- Determine who qualifies for an education credit
- Determine which credit the taxpayer can claim
- Determine if the taxpayer has scholarship/grant income or eligible expenses



In this module...

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Introduction to Tax Benefits for Education



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Introduction to Tax Benefits for Education

- This lesson covers tax credits available to help the taxpayer offset the costs of higher education by reducing the amount of income tax.
- Education credits reduce the amount of tax due and are based on qualified education expenses that the taxpayer paid during the tax year.
- There are two different education credits:
 - American Opportunity Credit (AOC)
 - Lifetime Learning Credit (LLC)
- There are general rules that apply to these credits, as well as specific rules for each credit.

Introduction to Tax Benefits for Education

- **There are 2 ways education expenses can affect a tax return.**
 - Taxable scholarship/grant income
 - Scholarship/Grant/Fellowship is reported as income.

Note: Scholarship/grant income is reported on the student's return, regardless of who claims the credit.

- Tax credit
 - American Opportunity Credit
 - Lifetime Learning Credit

Note: These credits are calculated on the return of the taxpayer who is qualified to claim the student as a dependent. If no taxpayer can claim the student as a dependent, the student claims the credit.

Introduction to Tax Benefits for Education

- During the client intake interview, encountering any one of the following items will require further investigation:
 - Form 1098-T, Tuition Statement
 - Account statement from school
 - Question about scholarship income in Part III of the Form 13614-C, Intake/Interview & Quality Review Sheet, answered, “Yes.”
 - Question about education expenses in Part IV of the Form 13614-C, Intake/Interview & Quality Review Sheet, answered, “Yes.”

Definition of Key Terms



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Eligible Institution

An eligible institution is **generally any accredited public, nonprofit, or private college, university, vocational school, or other postsecondary institution** eligible to participate in a student aid program administered by the U.S. Department of Education.

The school should be able to tell the student if it is an eligible education institution.

A searchable database of all accredited schools is available at:

<http://ope.ed.gov/accreditation/>



Eligible student

An eligible student is the **taxpayer, spouse or a dependent** who is enrolled in one or more courses as an undergraduate or graduate student.

Qualified Education Expenses

Qualified education expenses include **tuition, fees that are required for enrollment, and course materials the student was required to buy from the school.**

- The following are qualified education expenses **for the purposes of determining the tax-free portion of scholarships and fellowships:**
 - Tuition and fees required to enroll at or attend an eligible educational institution.
 - Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in the course of instruction.
- Qualified education expenses may also include:
 - **Non-academic fees**, such as student activity fees or other expenses unrelated to the academic course **that must be paid to the institution as a condition of enrollment or attendance.**

Grants and scholarships

A scholarship, grant or fellowship is tax free (excludable from gross income) **only if:**

- The student is a candidate for a degree at an eligible educational institution.

A student is considered a candidate for a degree if the student is pursuing a degree at a college or university or attend an educational institution that offers a program of training to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

A scholarship, grant or fellowship is tax free **only to the extent that:**

- It doesn't exceed qualified education expenses;
- It isn't designated or earmarked for other purposes (such as room and board) and doesn't require (by its terms) that it can't be used for qualified education expenses; and
- It doesn't represent payment for teaching, research, or other services required as a condition for receiving the scholarship.

Form 1098-T, Tuition Statement

Eligible colleges or other post-secondary institutions **must send Form 1098-T, Tuition Statement** to any student who paid qualified educational expenses in the preceding tax year.

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses \$ 2	OMB No. 1545-1574 2018 Form 1098-T	<p>Tuition Statement</p> <p>Copy B For Student</p> <p>This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.</p>
FILER'S employer identification no.	STUDENT'S TIN	3 If this box is checked, your educational institution changed its reporting method for 2018 <input type="checkbox"/>		
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January—March 2019 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code				
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form **1098-T**

(keep for your records)

www.irs.gov/Form1098T

Department of the Treasury - Internal Revenue Service



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Student Account Statement

Shows tuition, fees and other expense payments received by the school for that student.

- Reflects any payments made regardless of the payment's origin.
- Available from the eligible institution.
- Used to determine which fees paid to the institution qualify as eligible.

Eligibility to Claim Education Credits



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Basic Eligibility

- To claim an education credit, the following must be true for the taxpayer(s):
 - They cannot be claimed as a dependent on someone else's tax return
 - They are not filing as Married Filing Separately
 - Their adjusted gross income (AGI) is below the limitations for their filing status
 - They were not nonresident aliens for any part of the tax year, or if they were, they elected to be treated as resident aliens

Who can claim an education credit?

Taxpayers who **paid qualified educational expenses** for higher education for an **eligible student** attending an **eligible educational institution** can claim an education credit.

- Qualified education expenses paid by a dependent, or by a third party for that dependent, are considered paid by the taxpayer who can claim that student as a dependent.
- If a student isn't claimed as a dependent (even if eligible to be claimed), only the student can claim the education credit, no matter who paid the expenses.
- This doesn't entitle the student to claim themselves on their tax return.
- Anyone paying the expenses (even directly to the institution) are considered to have given a gift to the student who in turn is treated as having paid the expenses.

American Opportunity Credit



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American Opportunity Credit (AOC)

About the AOC:

- Student must attend an eligible institution.
- Covers qualified expenses: tuition, fees, books and supplies.
- Maximum credit of \$2,500 per eligible student on \$4,000 of qualified expenses.
- 40% of the credit is refundable.
- Per student – if there are multiple students attending a qualified institution on the return, AOC is calculated individually.
- Can be claimed for only 4 tax years.
- Must be enrolled at least half-time.
- Any felony drug conviction by the student disqualifies them from claiming the credit.
- Married Filing Separately disqualifies you for the credit.



American Opportunity Credit (AOC)

If a student is under the age of 24 and claiming the American Opportunity Credit:

- None of the credit is refundable if:
 - (1) the taxpayer claiming the credit is:
 - (a) under age 18, **or**
 - (b) age 18 at the end of the year, and their earned income was less than one-half of their own support, **or**
 - (c) a full time student over 18 and under 24 and their earned income was less than one-half of their own support; **and**
 - (2) the taxpayer has at least one living parent, **and**;
 - (3) the taxpayer doesn't file a joint return

Lifetime Learning Credit



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Lifetime Learning Credit (LLC)

- Non-refundable tax credit. Covers undergrad, grad and courses to acquire or improve job skills.
- Maximum credit of \$2,000 per tax return on \$10,000 of qualified expenses.
 - Calculation is 20% of eligible expenses until limit is reached.
- Must attend an eligible institution.
- Qualified expenses include tuition and fees
 - Books only if bought from the educational institution as a condition of enrollment.
 - Rarely do books qualify for LLC.
- Per return – expenses from multiple students can be combined to increase qualified expenses toward the overall \$10,000 maximum.
- Can be less than half-time student.



And a Few More Items...



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And a Few More Items

Tuition and Fees Deduction (EXPIRED for TAX YEAR 2018)

- Tuition and Fees deduction is an adjustment to income that can be taken as an alternative to an education credit.
- Taking an education credit is generally more beneficial than taking the tuition and fees deduction.
- Qualified expenses included for the adjustment are tuition and fees which are reduced by scholarships and grants.
- A maximum adjustment of \$4,000 per tax return on \$4,000+ of qualified expenses.
- This is a per return adjustment. Expenses from multiple students can be combined to increase qualified expenses toward the overall maximum of \$4,000 limit.
- When deciding whether to take the tuition and fees deduction or an education credit, consider the effects on both federal and state income tax returns.

Re-Cap



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Re-Cap

- Taxpayer must have a Form 1098-T and copy of Student Account Statement to claim an education credit.
- Taxable scholarship/grant income is reported on the student's return when the amount exceeds qualifying education expenses.
- Tax credits are reported on the tax return of the taxpayer who can claim the student as a dependent. The student claims the credit if no taxpayer claims him as a dependent.
 - American Opportunity Credit
 - Lifetime Learning Credit
- In some cases, you can report scholarships as income taxable to the student to maximize education credits.



Knowledge Check

- Module 8 Quiz
- Dear IRIS letters

Up Next...
Module 8B: Eligible Expenses



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