



America Counts on CPAs

## Money Management

*Money Management is a weekly personal finance column prepared and distributed by certified public accountants. It is part of the 360 Degrees of Financial Literacy effort focused on improving the financial understanding of Americans.*

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### **Tax Credits for Education: An Update**

A college education remains a big-ticket item. In fact, the average annual tuition at a private four-year college is now \$26,273, up 4.4 percent from last year, while annual tuition at public four-year colleges jumped 6.5 percent to \$7,020. That's why it's important to take advantage of any chances to lower the impact on your wallet, including tax credits that apply especially to education expenses. The Indiana CPA Society advises that some important changes this year make tax advantages available to more people.

#### **A NEW CREDIT**

There have long been two key tax credits for education: the Hope Credit and the Lifetime Learning Credit. In the 2009 and 2010 tax years only, there is a new credit available called the American Opportunity Credit (AOC), which essentially replaces the Hope Credit, modifying some of its rules so that it now benefits more higher-income taxpayers and people who do not owe taxes. The credit can amount to as much as \$2,500 per student per year for qualified tuition and expenses. It's open to single and head of household filers with modified adjusted gross income up to \$80,000 (\$160,000 filing jointly). The credit is gradually lowered for incomes up to \$90,000 (or up to \$180,000 for those filing jointly). Those levels are higher than previous limits for either the Hope or Lifetime Learning Credits. While the Hope Credit in the past could only be claimed for the first two years of post-secondary education, the new credit is good for the first four years. And, in certain situations you can receive a refund of up to \$1,000 even if you don't owe any taxes at all. The expenses that can be claimed have been expanded to include books, supplies and other materials needed for courses. In addition, there are special rules for students in who live in designated Midwestern disaster areas.

## **LIFETIME LEARNING CREDIT**

A Lifetime Learning Credit of up to \$2,000 per year (\$4,000 for those attending an eligible institution in a Midwestern disaster area) is available for an unlimited number of years of qualified education, although you can't claim both the Lifetime Learning Credit and Hope Credit or AOC in one year. The Lifetime Credit applies even if you take less than a full course load or for classes you take to improve your job qualifications. You qualify to take the credit if your income is below \$50,000 (\$100,000 if filing jointly), and it is gradually phased out for those with incomes up to \$60,000 (\$120,000 filing jointly).

## **WHAT'S SO GOOD ABOUT A CREDIT?**

Tax credits are great because they lower your taxes on a dollar-for-dollar basis. For example, say you have a tax bill of \$6,500 and you qualify for the full \$2,000 Lifetime Learning Credit. That would lower your overall tax bill to \$4,500, a savings well worth taking advantage of.

## **DON'T FORGET DEDUCTIONS**

Remember that it's also possible to deduct some education-related fees and expenses on your tax return. For example, it may be possible to lower your taxable income by up to \$4,000 if you qualify to deduct certain education expenses. Some taxpayers may be eligible to deduct student loan interest, depending on their income level.

## **CONSULT YOUR CPA**

With all these many education-related tax breaks available, it's a good idea to get expert advice on how to make the most of them. Your local CPA can help. Turn to him or her with all your questions on tax credits or deductions for education.

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