
HIGHER EDUCATION TAX INCENTIVES

The Taxpayer Relief Act of 1997 created several new tax benefits for families who are saving for, or already paying for, higher education. There are also benefits for taxpayers who are repaying student loans. Your eligibility for any of these benefits depends on your individual situation. For more information about these benefits, please contact your tax consultant or financial advisor.

The HOPE Scholarship Tax Credit

What is the Hope Scholarship Tax Credit?

The Hope Scholarship Tax Credit is a tax credit, not a scholarship. This may be available to individuals who file a tax return and owe taxes. The Hope Scholarship Tax Credit is available for the first two years of educational expenses.

How Much Can You Claim for a Hope Scholarship Tax Credit?

The amount that may be claimed as a Hope Scholarship Tax Credit is equal to 100% of the first \$1,000 of eligible educational expenses and 50% of the next \$1,000. Therefore, the taxpayer may claim up to \$1,500 for each qualified student in the taxpayer's household. The actual amount of the credit depends on your family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition and fees.

Who Qualifies for the Hope Scholarship Tax Credit?

To qualify, a taxpayer must file a federal tax return and owe taxes to claim the Hope Scholarship Tax Credit. In addition, the taxpayer must claim an eligible student as a dependent on the tax return, unless the credit is for the taxpayer or the taxpayer's spouse. The credit amount is phased out when the taxpayer's modified adjusted gross income is between \$40,000 and \$50,000 for single taxpayer's (\$80,000 - \$100,000 for married taxpayers).

Who is Considered an Eligible Student?

An eligible student must be enrolled at least halftime in a degree-seeking program for at least one academic period that begins during the taxable year. The credit is allowed only for the first two years of postsecondary education, per student. The credit will be denied for a student convicted of a felony drug offense. If the family has multiple students that meet the requirements, then multiple Hope Scholarship Tax Credits may be claimed.

How Do You Claim a Hope Scholarship Tax Credit?

To apply for the Hope Scholarship Tax Credit, the taxpayer must report the amount of tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. The law says that schools must send this information in the form of a "return" to each taxpayer and to the IRS. Your school will mail this to you by January 31 for the prior year's taxes. You will use this information and your own records about tuition and fee amounts you paid to fill out the IRS Form 8863 to claim the tax credit. If you have questions about this tax credit or need help in calculating the amount of your credit, please contact a tax consultant or financial advisor.

The Lifetime Learning Tax Credit

What is the Lifetime Learning Tax Credit?

The Lifetime Learning Tax Credit is a tax credit available to individuals who file a tax return and owe taxes. This means the amount of the credit is subtracted from the taxes your family owes, rather than reducing taxable income like a tax deduction does.

How Much Can You Claim for a Lifetime Learning Tax Credit?

Through 2002, a family may claim up to 20% of the taxpayer's first \$5,000 of out-of-pocket qualified expenses for all students in the family (a maximum of \$1,000 per family through 2002). After 2002, the credit is equal to 20% of the taxpayers' first \$10,000 of out-of-pocket qualified expenses (a maximum of \$2,000 per family after 2002). The actual amount of the credit depends on your family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition and fees paid. The Lifetime Learning Tax Credit does not vary according to the number of students.

Who Qualifies for the Lifetime Learning Tax Credit?

A taxpayer must file a tax return and owe taxes to claim the Lifetime Learning Tax Credit. The taxpayer must also claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. The credit amount is phased-out when the taxpayer's modified adjusted gross income is between \$40,000 and \$50,000 for single taxpayers (or \$80,000 - \$100,000 for married taxpayers).

Who is Considered an Eligible Student?

An eligible student may be enrolled in at least one course of undergraduate, graduate, or continuing-education coursework at an eligible institution.

Unlike the HOPE Scholarship Tax Credit, the Lifetime Learning Tax Credit may be claimed for an unlimited number of years.

How Do You Claim a Lifetime Learning Tax Credit?

Follow the same steps defined for claiming the Hope Scholarship Tax Credit.

Please Note: A taxpayer may not claim the Hope Scholarship Tax Credit **AND** the Lifetime Learning Credit in one year for the same student's expenses.

Sources: <http://www.finaid.org/otheraid/tax.phtml>
www.nasfaa.org

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