

## 2009 EDUCATION CREDITS

### American Opportunity Credit

As a community college student, you are eligible to receive education tax credits that can reduce the expense of your education. There are three education tax credits available, the **American Recovery and Reinvestment Act, Hope Credit** and the **Lifetime Learning Credit**. The credits are based on education expenses paid for you, your spouse, or your dependents.

Under the **American Recovery and Reinvestment Act** (ARRA), more parents and students will qualify over the next two years for a tax credit, the American Opportunity Credit, to pay for college expenses.

The American Opportunity Credit was not available on the 2008 returns taxpayers filed during 2009. The new credit modifies the existing Hope credit for tax years 2009 and 2010, making it available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of \$2,500 per student.

The full credit is available to individuals whose modified adjusted gross income is \$80,000 or less, or \$160,000 or less for married couples filing a joint return. The credit is phased out for taxpayers with incomes above these levels. These income limits are higher than under the existing Hope and Lifetime Learning Credits.

Special rules apply to a student attending college in a Midwestern disaster area. For tax-year 2009, only, taxpayers can choose to claim either a special expanded Hope Credit of up to \$3,600 for the student or the regular American Opportunity Credit.

If you have questions about the American Opportunity Credit, see <http://www.irs.gov/newsroom/article/0,,id=205674,00.html>

### Hope Credit

The **Hope Credit** generally applies to 2008 and earlier tax years. It helps parents and students pay for post-secondary education. The Hope Credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax the excess will not be refunded to you. The Hope Credit you are allowed may be limited by the amount of your income and the amount of your tax.

The Hope Credit is for the payment of the first two years of tuition and related expenses for an eligible student for whom the taxpayer claims an exemption on the tax return. Normally, you can claim tuition and required enrollment fees paid for your own, as well as your dependents' college education. The Hope Credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time.

Generally, you can claim the Hope Credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.

- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse or a dependent for whom you claim an exemption on your tax return.

You cannot take both an education credit and a deduction for tuition and fees (see deductions, below) for the same student in the same year. In some cases, you may do better by claiming the tuition and fees deduction instead of the Hope Credit. As such, you may want to consult a tax advisor.

Education credits are claimed on Form 8863, Education Credits (Hope and Lifetime Learning Credits). For details on these and other education-related tax breaks, see IRS Publication 970, Tax Benefits of Education.

### **Lifetime Learning Credit**

The Lifetime Learning Credit helps parents and students pay for post-secondary education.

For the tax year, you may be able to claim a Lifetime Learning Credit of up to \$2,000 (\$4,000 for students in Midwestern disaster areas) for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the Lifetime Learning Credit can be claimed for each student. However, a taxpayer cannot claim both the Hope or American Opportunity Credit and Lifetime Learning Credits for the same student in one year. Thus, the Lifetime Learning Credit may be particularly helpful to graduate students, students who are only taking one course and those who are not pursuing a degree.

Generally, you can claim the Lifetime Learning Credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse or a dependent for whom you claim an exemption on your tax return.

If you're eligible to claim the Lifetime Learning Credit and are also eligible to claim the Hope or American Opportunity Credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. This means that, for example, you can claim the Hope or American Opportunity Credit for one student and the Lifetime Learning Credit for another student in the same year.