

National Association of Student Financial Aid Administrators

**Parent and Student Guide to Federal Tax Benefits
for Tuition and Fees (for tax year 2004)**

Understanding the Hope Scholarship Tax Credit

What Is It?

The Hope Scholarship is a tax credit, not a scholarship. Tax credits are subtracted from the tax your family owes, instead of subtracting them from taxable income like a tax deduction. Your family must file a federal tax return and owe taxes to get this tax credit. You cannot get a refund for the Hope credit if your family doesn't pay taxes. If your family owes less in taxes than the maximum amount of the Hope tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes.

Your family may claim a tax credit up to \$1,500 for each eligible dependent for up to two tax years. The Hope credit is available only until the first two years of postsecondary education are complete.

The exact amount of the Hope 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. The total credit is also based on how many eligible dependents are in your family, rather than a maximum dollar amount for the family, like the Lifetime Learning tax credit.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope 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. (This means the eligible taxpayer may also be the eligible student.) You cannot claim a Hope credit if your Modified Adjusted Gross Income (MAGI) is \$52,000 or more for a single taxpayer, or \$105,000 or more for married taxpayers. The credit amount is gradually reduced for families with incomes between \$42,000 and \$52,000 if single, or \$85,000 and \$105,000 if married.

The Student: The tax law says an eligible student must be enrolled at least half-time in an eligible program leading to a degree or certificate at an eligible school during the calendar year AND must not have completed the first two years of undergraduate study. The college can help you determine whether it meets this requirement. You may claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student

may also be the eligible taxpayer.) Also, you must not have been convicted of a federal or state felony drug offense before the end of the tax year in which you are enrolled.

How Do You Get It?

To apply for the 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 1098-T statement to each taxpayer and to the IRS. For tax year 2004, colleges and universities are expected to fill out all sections of IRS Form 1098-T before sending them to students. [*Your school will mail this to you by January 31, 2005.*] This statement from the school will also include the phone number of a person you can call at the school if you have questions. 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. You may wish to talk to a tax advisor for help in calculating the amount of your credit.

When Is It Available?

Taxpayers may pay educational expenses in a tax year for an academic period that begins following the tax year (e.g., paying in December 2004 for an academic period beginning in the first three months of 2005).

Can A Family Claim Multiple Benefits?

Your family may claim a Hope credit, a Lifetime Learning credit, and an exclusion from gross income for certain distributions from qualified State tuition programs or education IRAs as long as the same student is not used as the basis for each credit or exclusion AND the family does not exceed the Lifetime Learning maximum per family.

Copyright 2005 NASFAA

National Association of Student Financial Aid Administrators

Understanding the Lifetime Learning Tax Credit

What Is It?

The Lifetime Learning 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 reducing taxable income like a tax deduction does. You cannot get a refund for the Lifetime Learning credit if your family doesn't pay

taxes. If your family owes less in taxes than the maximum amount of the Lifetime Learning tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes.

As of tax year 2004 your family may claim a tax credit of up to \$2,000 per tax year for the taxpayer, taxpayer's spouse, or any eligible dependents for an unlimited number of tax years. The amount of the Lifetime Learning tax credit is 20% of the first \$10,000 of qualified educational expenses paid for all eligible students. Therefore, the maximum amount of a Lifetime Learning tax credit is \$2,000. The Lifetime Learning credit is available for all years of postsecondary education and for courses to acquire or improve job skills. Unlike the Hope credit (which is only available for two years) the Lifetime credit is available for an unlimited number of years.

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. This credit is family-based (up to \$2,000 per tax return) rather than based on the number of dependents in your family as with the Hope credit.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a tax return and owe taxes to claim the credit. The taxpayer must also claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) You cannot claim a Lifetime Learning credit if your MAGI is \$52,000 or more (if single), or \$105,000 or more (if married). The credit amount is gradually reduced for families with incomes between \$42,000 and \$52,000 if single or between \$85,000 and \$105,000 if married. See the most recent IRS Form 8863 for the revised MAGI limits.

The Student: An eligible student may be enrolled in an eligible program leading to an undergraduate or graduate degree at an eligible school during the calendar year OR may be enrolled level in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. You may claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student may also be the eligible taxpayer.)

How Do You Get It?

To apply for the 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 specifies that schools will send you this information in the form of a 1098-T statement to individual taxpayers and to the IRS. For tax year 2004, colleges and universities are expected to fill out all

sections of IRS Form 1098-T before sending them to students. [*Your school will mail this to you by January 31, 2005.*] This statement from the school will also include the phone number of a person you can call at the school if you have questions. 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. You may wish to talk to a tax advisor for help in calculating the amount of your credit.

When Is It Available?

Taxpayers may pay educational expenses in a tax year for an academic period that begins following the tax year (e.g., paying in December 2004 for an academic period beginning in the first three months of 2005).

Can A Family Claim Multiple Benefits?

Your family may claim a Lifetime Learning credit, a Hope credit, and an exclusion from gross income for certain distributions from qualified state tuition programs or education IRAs as long as the same student isn't used as the basis for each credit or exclusion AND the family doesn't exceed the Lifetime Learning maximum per family.

Copyright 2005 NASFAA

National Association of Student Financial Aid Administrators

Understanding the Tuition and Fees Tax Deduction

What Is It?

The Tuition and Fees Tax Deduction can reduce the amount of your taxable income by as much as \$4,000 per year for tax year 2004. This deduction is subtracted from your income, which means you can claim this deduction even if you do not itemize your deductions on Schedule A of Form 1040. This deduction may benefit you if you do not qualify for either the Hope or Lifetime Learning Education Tax Credits.

For tax year 2004, you may deduct up to \$4,000 in tuition and fees required for enrollment or attendance at an eligible postsecondary institution. You may not deduct expenses for personal, living, or family expenses, including room and board, insurance, medical expenses, or transportation.

The exact amount of the Tuition and Fees Tax Deduction depends on the qualified tuition and related expenses that you pay for yourself, your spouse, or a dependent for whom you are entitled to claim an exemption on your tax return.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return to claim the Tuition and Fees Tax Deduction. In addition, the taxpayer must claim an eligible student (one who is enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return, unless the deduction is for the taxpayer or the taxpayer's spouse. For tax year 2004, the amount of qualified education expenses you may take into account in figuring your Tuition And Fees Deduction increases from \$3,000 to \$4,000 if your modified adjusted gross income (MAGI) is not more than \$65,000 (\$130,000 if you are married filing jointly). If your MAGI is larger than \$65,000 (\$130,000 if you are married filing jointly), but is not more than \$80,000 (\$160,000 if you are married filing jointly), your maximum Tuition And Fees Deduction is \$2,000. No Tuition And Fees Deduction is allowed if your MAGI is larger than \$80,000 (\$160,000 if you are married filing jointly).

The Student: An eligible student must be enrolled in one or more courses at an eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. According to the IRS, "it includes virtually all accredited, public, nonprofit, and proprietary postsecondary institutions." The college you attend can help you figure out whether they meet this requirement. You may claim the deduction yourself if you are not claimed as a dependent by another taxpayer.

How Do You Get It?

To receive the deduction, the taxpayer must enter the qualified tuition and fee amount on Form 1040, line 26, or Form 1040A, line 19. An eligible institution that received payment for tuition and fees in the 2004 tax year generally must have issued IRS Form 1098-T (the *Tuition Payments Statement*) to each student by January 31, 2005. The information on that form will help you determine whether you can claim a deduction for 2004.

When Is It Available?

Generally, the deduction is allowed for qualified tuition and expenses paid in 2004 in connection with enrollment at an institution of higher education during 2004 or for an academic period beginning in 2004 or in the first three months of 2005. For instance, if you paid \$1,500 in December 2004 for qualified tuition for a spring 2005 semester that begins in January 2005, you can use that \$1,500 in figuring your 2004 deduction.

Can A Family Claim Multiple Benefits?

Your family may claim this deduction along with a Hope credit, a Lifetime Learning credit, and an exclusion from gross income for certain distributions from qualified State tuition programs or education IRAs, as long as the same student is not used as the basis for each deduction, credit, or exclusion **and** the family does not exceed the Lifetime Learning maximum per family.

You cannot take the Tuition and Fees Tax Deduction if you deduct tuition and fees expenses under any other provision of the law, for example, as a business expense.

You also may not claim the deduction if the tuition and fees were paid with a tax-free scholarship, grant, or other educational assistance. "Grants" may include Pell Grants. "Other assistance" may include employer-provided educational assistance, and other non-taxable benefits received to pay for educational expenses.

Copyright 2005 NASFAA

IRS Publications

Publication 970 (PDF), Tax Benefits for Higher Education

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

Form 8863 and Instructions (PDF), Education Credits (Hope and Lifetime Learning Credits)

<http://www.irs.gov/pub/irs-pdf/f8863.pdf>

Tax Topic 605, Education Credits

<http://www.irs.gov/taxtopics/tc605.html>

Frequently Asked Questions and Answers from the IRS, Education Tax Credits

<http://www.irs.gov/faqs/faq-kw52.html>

The National Association of Student Financial Aid Administrators (NASFAA) created this general guide to federal education-related tax benefits for students and their families. We hope you have found useful the basic information about the Hope Scholarship tax credit, the Lifetime Learning tax credit, and the Tuition and Fees Tax Deduction. More detailed information is available from the IRS

(including the links noted above) or from financial advisors. For additional information on the financial aid process, please visit our Web site for students and parents at <http://www.nasfaa.org/ParentsStudents.asp>.

Updated February 1, 2005 on www.NASFAA.org, the Web Site of the National Association of Student Financial Aid Administrators (NASFAA). Copyright 2005. Permission to reprint or distribute is granted to NASFAA Members.