

Tuition Tax Credits

The Hope and Lifetime Learning Tax Credits

If you're paying for you or your dependent's college education, there are two tax credits available for you -- the Hope and the Lifetime Learning credits.

What's a Tax Credit?

A tax **credit** is better than a **deduction**. A credit is subtracted directly from your federal income tax on a dollar-to-dollar basis. This saves you more money than a deduction, which you subtract from your income before you calculate your tax and which yields much less than dollar-for-dollar savings.

Who Gets to Claim the Credit?

If someone claims the student as a dependent for tax purposes, that person, not the student, may receive the tax credit, even if the student files a tax return. Otherwise, only the student may receive the credit.

What's the Difference Between the Credits?

The **Hope Credit** can be claimed for each of the first two years of college or vocational school, for classes that lead to a degree or recognized certificate. The student must be enrolled at least half-time to qualify for the Hope Credit. The **Lifetime Learning Credit** is available for any postsecondary education, including graduate and professional school, and unlike the Hope Credit, there is no minimum enrollment. If you qualify for both credits, it will usually be to your advantage to claim the Hope Credit.

What College Costs Qualify?

Qualified expenses include tuition and required fees, minus any grants and scholarships that are received tax-free. Expenses for books and supplies are not included unless they are paid to the institution as a condition of enrollment. The costs of room and board, insurance, transportation, and medical fees (including health fees) are not qualified expenses, even if required for enrollment.

What the Hope Tax Credit is Worth:

The amount of the credit equals 100% of the first \$1,000 of qualified expenses plus 50% of the second \$1,000 for a maximum of \$1,500. After the year 2002, the credit will be adjusted according to inflation.

Example: You are single, enrolled in the first year at a technical school, and have an adjusted gross income of \$20,000. You pay \$2,200 in tuition and required fees and receive an \$800 tax-free grant, which brings your expenses to \$1,400. You would be eligible for a Hope tax credit of \$1,200 (100% of the first \$1,000 plus 50% of \$400, or \$200 = \$1,200).

What the Lifetime Learning Tax Credit is Worth:

Through the year 2002, the credit equals 20% of the first \$5,000 of qualified expenses, for a maximum of \$1,000. After 2002, the credit will be 20% of the first \$10,000, for a maximum of \$2,000. Unlike the Hope Credit, this will not be adjusted for inflation.

Example: You and your spouse file jointly and have an adjusted gross income of \$70,000. Your child is enrolled in the third year at a university, which costs you \$4,000 in qualified expenses. You would receive a Lifetime Learning Credit of \$800 (20% of \$4,000).

Is There an Income Limit?

Single tax filers with up to \$40,000 of adjusted gross income (AGI) and joint tax filers with up to \$80,000 of AGI qualify for the full credit. It is gradually phased out for single filers in the \$40,000-\$50,000 range and for joint filers in the \$80,000-\$100,000 range, and it is not available for those whose income exceeds the upper limit of those ranges.

How the Phaseout is Calculated:

If you are a single filer with an adjusted income between \$40,000 and \$50,000, or a joint filer in the \$80,000-\$100,000 range, the credit is reduced by the percentage of the phase-out range your income exceeds.

Example: You are a single filer who has an AGI of \$45,000 or a joint filer with an AGI of \$90,000. In both cases, your tax credit would be reduced by 50%, since your income exceeds 50% of the phase-out range.

It's Easy to Claim Credit!

- The college will send the student IRS Form 1098-T, Tuition Payments Statement, which will report the tuition and related expenses paid for the student.
- The person claiming the credit needs to fill out [IRS Form 8863 \(PDF\)](#) and attach the form to his or her federal tax return. You can call 1-800-829-3676 to order the form. It is a worksheet that will help to calculate the amount of the Hope or Lifetime Learning Credit that will be claimed on the return.

Other Points to Remember....

- Married couples must file a joint tax return in order to be eligible for either credit
- Only one credit may be claimed per student per year.
- A student who has been convicted of a felony drug offense is not eligible for the Hope Credit.
- A student who has benefited from a tax free distribution from an Education IRA is not eligible for either tax credit.
- A family with more than one student may qualify for more than one credit in a year. A Hope Credit may be claimed for each student who qualifies. However, the Lifetime Learning Credit is claimed on a per taxpayer (family) basis. That means that the Lifetime Learning Credit may be claimed only once per year by a taxpayer, although it may cover more than one student in a family as long as the maximum value of the credit is not exceeded.

Example: You and your spouse have three children, all dependents, enrolled in college. The two younger ones are in their first two years, so each qualifies for a Hope Tax Credit. The oldest child is a senior whose expenses are \$3,000. Also, you are taking classes at a graduate school and must pay \$4,000. You and your spouse may claim only one Lifetime Learning Credit for your family. This will cover the first \$5,000 of the \$7,000 you pay for you and your oldest child's education, and will reduce your federal income tax by \$1,000 (20% of \$5,000). That is in addition to the amount you will save with the two Hope Credits you receive for your younger children.

For More Information

Call the IRS Help Line at 1-800-829-1040 IRS publication 970, Tax Benefits for Higher Education (192K PDF, Portable Document Format, requires the Adobe Acrobat Reader. To download this for free, go to the Acrobat Reader download site); visit the U.S. Treasury Department's Web site at www.irs.ustreas.gov ; or consult your tax advisor.