

Federal Higher Education Tax Benefits

Several federal individual income tax benefits may help you offset the cost of postsecondary education. If you qualify for higher education tax credits or deductions, you receive the benefits after you pay education expenses when you file your federal tax return. For a complete list of federal higher education tax benefits and further information, see IRS publication 970 at www.irs.gov. Some of the federal tax benefits include the following.

Tax Credits - reduces the amount of taxes you owe and may or may not be refundable

American Opportunity Tax Credit

You may be able to claim an American Opportunity Tax Credit of up to \$2,500 for qualified tuition and related expenses for each eligible student on your federal individual income tax return. If you qualify for the credit and pay federal income tax, the credit reduces your taxes. The credit is partially (40%) refundable, which means you may claim the credit and get a refund even if you do not owe taxes.

Lifetime Learning Tax Credit

You may be able to claim a federal individual income Lifetime Learning Tax Credit of up to \$2,000 for qualified tuition and related expenses per tax return per year. The credit reduces the amount of federal individual income taxes you may have to pay. The credit is non-refundable.

Tax Deductions - subtracted from your taxable income

Student Loan Interest Deduction

You may be able to deduct up to \$2,500 of the interest you paid on student loans on your federal individual income tax return.

Tuition and Fees Deduction

You may be able to deduct qualified tuition and related expenses even if you do not itemize deductions on Schedule A, Form 1040. This deduction may be beneficial to you if you cannot take either the American Opportunity or Lifetime Learning Tax Credit.

Tax Exclusion From Income - benefits not included as income when filing federal taxes

Employer Paid Educational Assistance

Your employer can exclude from your W-2 wages, tips and other compensation \$5,250 in educational assistance benefits you receive annually under an educational assistance program. Your employer can tell you if there is a qualified program where you work. You do not have to include the benefits on your income tax return.

Limitations & Restrictions

Federal individual income tax credits and deductions have different phase-in and phase-out periods, varying income eligibility requirements and different definitions of qualified expenses, as shown on the following table. Students and families may need to choose among tax benefits since some tax provisions cannot be used in combination in the same tax year. For example, you cannot use any of the tax free education expenses paid by your employer as the basis for any other deduction or credit and you cannot claim more than one higher education tax credit or deduction for the same qualified expenses in the same tax year. Do not rely on the following table: see IRS publication 970 at www.irs.gov for complete details.

	American Opportunity Tax Credit	Lifetime Learning Tax Credit	Student Loan Interest Deduction	Tuition & Fees Deduction
Tax Benefit	Reduces the amount of federal tax you pay; 40% refundable for individuals who do not have to pay federal income tax	Reduces the amount of federal tax you pay; non-refundable	Deduction from income on interest paid on student loans	Deduction from income for tuition and related expenses
Annual Limits	Up to \$2,500 per eligible student, only for first four years of postsecondary education, limited to \$1,000 if refundable	Up to \$2,000 per tax return, with no limit on number of years credit may be claimed	Up to \$2,500, per year during the remaining period of the student loan	Up to \$4,000 or \$2,000 depending on income
Eligible Institutions	Any college, university, vocational school or other postsecondary educational institution eligible to participate in student aid programs administered by the U.S. Department of Education			
Eligible Expenses	Tuition and required enrollment fees, plus course related books, supplies and equipment	Tuition and required enrollment fees	Interest paid during the year on a qualified student loan used to pay tuition and required enrollment fees, books, supplies and equipment, room and board, transportation and other necessary expenses	Tuition and required enrollment fees
Eligible Students	Student enrolled at least half time in an undergraduate degree or recognized credential at an eligible educational institution	Student enrolled for one or more courses at an eligible educational institution, undergraduate, graduate or courses to acquire or improve job skills	Student must be or have been enrolled at least half time in a degree, certificate or other recognized program, undergraduate or graduate	Student enrolled in one or more courses at an eligible educational institution, undergraduate or graduate
Other Eligibility Conditions	You cannot claim this credit if your tax filing status is married filing separately or you are listed as an exemption on another person's tax return.	You cannot claim this credit if your tax filing status is married filing separately or you are listed as an exemption on another person's tax return.	You cannot claim this deduction if your tax filing status is married filing separately or you are listed as an exemption on another person's tax return.	You cannot claim this deduction if your tax filing status is married filing separately or you are listed as an exemption on another person's tax return Cannot claim credit and deduction for same student in same year
Income Limits (adjusted gross income)	Single: less than \$90,000 Joint: less than \$180,000	Single: less than \$60,000 Joint: less than \$120,000	Single: less than \$75,000 Joint: less than \$150,000	Up to \$4,000 Single: \$65,000 or less Joint: \$130,000 or less Up to \$2,000 Single: \$65,000 to \$80,000 Joint: \$130,000 to \$160,000
How to Claim the Benefit	Claimed on federal income tax form			