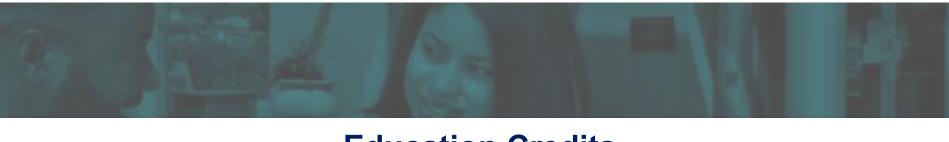
TOPICS



Education Credits

Education Credits

- Two education credits are available based on qualified expenses a taxpayer pays for post-secondary education:
 - American Opportunity Tax Credit (AOTC)
 - Lifetime Learning Credit
- Certain general rules apply to both of these credits, and there are also specific rules for each. To claim the credit for a dependent's education expenses, the taxpayer must claim the dependent on his return. A taxpayer cannot claim education credits if he or she:
 - Was claimed as a dependent on someone else's tax return,
 - Files MFS,
 - Has adjusted gross income above the phase out limit for his filing status
 - Has a spouse who was a nonresident alien for any part of the tax year

Education Credits

Eligible Educational Institutions:

- An eligible educational institution is generally any accredited public, nonprofit, or private post-secondary institution eligible to participate in the student aid programs administered by the Department of Education.
- It includes virtually all accredited, public, nonprofit, and privately owned profit-making post-secondary institutions.

American Opportunity Tax Credit (AOTC)

The American Opportunity Tax Credit (also referred to as the AOTC or AOC) allows taxpayers to claim a maximum credit of up to \$2,500 for each eligible student. The credit covers 100% of the first \$2,000 and 25% of the second \$2,000 of eligible expenses per student.

AOTC Requirements

- The American Opportunity Tax Credit is partially refundable. Up to 40% of the credit is refundable, which means the taxpayer can receive up to \$1,000 even if no taxes are owed.
 Requirements for the AOTC are as follows:
 - Degree requirement: The student must be enrolled in a program that leads to a degree, certificate, or other recognized educational credential. Taking classes merely for fun or recreation does not qualify.
 - Workload: For at least one academic period of the year, the student must carry at least half of the normal full-time workload for his course of study
 - No felony drug conviction: The student must not have any felony convictions for possessing or distributing a controlled substance
 - **Four years of postsecondary education**: The credit can be claimed only for expenses related to a student's post-secondary education and only for a maximum of four years.

AOTC Expenses

- Qualified education expenses must be reduced by the amount of any tax-free educational assistance received, such as Pell grants, tax-free portions of scholarships, and employer-provided educational assistance. Eligible expenses for the AOTC are:
 - Tuition
 - Required enrollment fees
 - Course-related books, supplies, and equipment
- Education expenses that do not qualify include:
 - Room and board, (even if the housing is on-campus and a condition of enrollment)
 - Any medical expenses, including student health fees, even if charged by the college
 - Other insurance costs
 - Transportation costs
 - Personal, living, or family expenses

Lifetime Learning Credit

- The Lifetime Learning Credit is a non-refundable tax credit of 20% of qualified tuition, fees, and any amounts paid directly to the educational institution for required books, supplies and equipment, up to \$10,000, paid during the tax year.
- The maximum credit is \$2,000 per tax return, not per student. A family's maximum credit is the same regardless of the number of qualified students.

Lifetime Learning Credit Requirements

- The requirements for the Lifetime Learning Credit differ from those for the AOTC as follows:
 - No workload requirement: A student is eligible no matter how few courses he takes
 - Non-degree courses eligible: A student qualifies if he is simply taking a course to acquire or improve job skills. There is no degree requirement.
 - All levels of postsecondary education: A student may be an undergraduate, graduate, or professional degree candidate. The courses can also be just for professional development.
 - An unlimited number of years: There is no limit on the number of years for which the credit can be claimed for each student
 - Felony drug convictions permissible: A student can be convicted for a felony drug conviction and still qualify

Lifetime Learning Credit Expenses

- Qualified education expenses must be reduced by the amount of any tax-free educational assistance received, such as Pell grants, tax-free portions of scholarships, and employer-provided educational assistance. Eligible expenses for the LLC are:
 - Tuition
 - Required enrollment fees
 - Amounts paid for required books and supplies paid to the educational institution
- Education expenses that do not qualify include:
 - Room and board, (even if the housing is on-campus and a condition of enrollment)
 - Any medical expenses, including student health fees, even if charged by the college
 - Other insurance costs
 - Transportation costs
 - Personal, living, or family expenses

Education Credit Worksheet

 A fillable/printable worksheet was created to help walkthrough the education credits portion of TaxSlayer and ensure all necessary questions were asked for entering and QR purposes.

Education Credit Worksheet

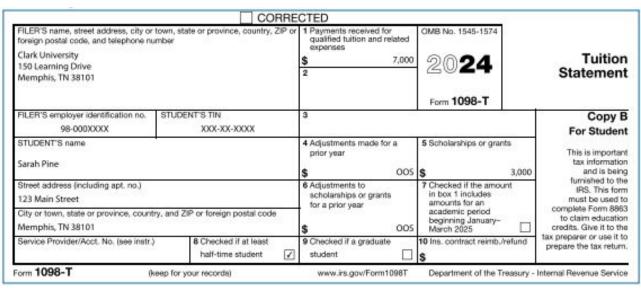
4 1-46-4	EN-EV		
Is the taxpayer being claimed by someone as a dependent?	□ No □ Yes, stop, education credit cannot be claimed.		
2. Is the taxpayer's filing status married filing separately?	No Yes, stop, education credit cannot be claimed.		
3. Was the student over age 18, but under age 24 at the end of the tax year?	□Yes □No		
Did the student receive a Form 1098-T from an eligible educational institution for the tax year?	□ Yes □ No		
5. Did the student receive a Form 1098-T from this institution for the previous tax year with Box 2 filled in and Box 7 checked?	□Yes □No		
6. Does the 1098-T for the current tax year have an amount in boxes 4 or 6?	□ No □ Yes, stop, out of scope		
7. Has the Hope Scholarship Credit or American Opportunity Credit already been claimed for this student on 4 prior year tax returns, either on their return or someone that claimed them as a dependent's return?	□ Yes □ No		
8. Was the student enrolled at least half-time?	Yes No		
Did the student complete the first 4 years of post-secondary education before the tax year?	□ Yes □ No		
Was the student convicted, before the end of the tax year, of a felony for possession or distribution of a controlled substance?	□Yes □No		

11. Did the student pay for books, supplies, or equipment out of their pocket?	No OYes; Amount:	
12. Did scholarships or tax-free funds cover all educational expenses?	□Yes □No	
13. Were room and board, insurance, medical expenses, transportation or other living expenses included in the tuition?	□ No □ Yes, subtract from qualified expenses	
14. Did the student receive any refunds from tuition over-payments or class withdrawals?	□ Yes □ No	
15. Which education credit is the client eligible for?	AOC Lifetime Learning Credit	
16. What is the amount of eligible educational expenses?	Amount:	

- Can be found by going to AAS Resources website, hovering over "Resources" in top right and clicking on "Site Manual"
- Tab 13 takes you to a Google Drive link with all Tax Site Documents. Find "Education Credit Worksheet"

Figuring Out The Credits

The taxpayer or taxpayer's dependent should receive a Form 1098-T, Tuition Statement
from their post-secondary institution. If they do not have it with them, they should be able
to go to online to their institution account and pull it up, along with their account statement
that shows all fees paid for all semesters during the tax year.



 As a reminder, if an individual has a Form 1098-T and there are amounts in boxes 4 and/or 6, the return is Out of Scope.

Figuring Out The Credits

Box 1 is the starting point for determining Qualified Educational Expenses.

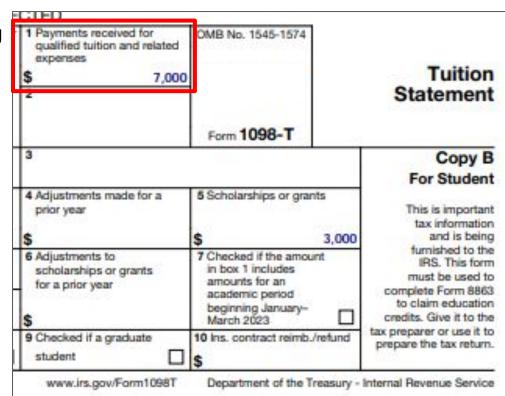
Look at the Student Account Statement.

Subtract any expenses seen there for:

- Room and Board,
- Health insurance or medical fees,
- Transportation,
- Parking,
- · Optional fees.

Then **add** amounts spent out of pocket for:

 Books and supplies.
 This is almost always given as a reasonable estimate. It can include a computer needed for course work.

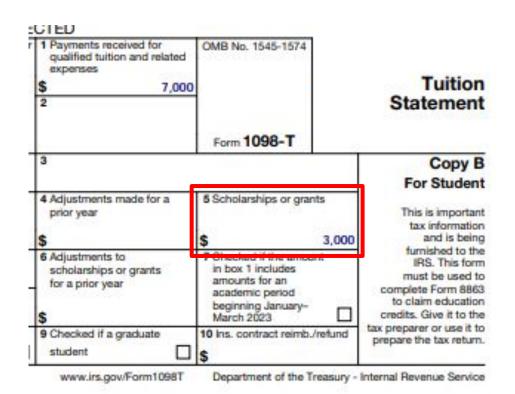


Figuring Out The Credits

Box 5 shows the amount of Scholarships, Grants, or Fellowships received by the student.

In most cases, this represents funding from a Pell Grant. These grants have no restrictions as to how they are used.

But—always ask if this is the case.



Figuring Out The Credits (Maximizing the Education Credit)

American Opportunity Credit Scenarios

Scenario 1: (Total qualified educational expenses - Scholarships and Grants) > \$4,000.

Enter \$4,000 for qualified education expenses and no scholarship income is reported.

Example:	Total Qualified expenses	\$13,300
1098-T Box 1: \$13,000 Scholarships and grants: \$8,000 Books: \$300	Less Scholarships and Grants	(\$8,000)
	Total	\$5,300
	Qualified education expenses for AOTC	\$4,000*

*\$5,300> \$4,000, therefore only \$4,000 go towards AOTC. No taxable scholarship income to report.

Scenario 2:0 < (Qualified educational expenses-scholarships) < \$4,000

Option 1:

- Qualified Education Expenses used for AOTC = Total qualified education expensesscholarships and grants
- No scholarship income to report.

Option 2:

- Qualified Education Expenses used for AOTC = QEE up to \$4,000.
- Taxable scholarship= AOTC Amount (total qualified education expenses- scholarships and grants)

- To help figure out the amount of eligible expenses and taxable scholarships, use the American Opportunity Credit Scenarios Step-by-Step that can be found on the AAS Resources website under "Step-by-Step Guides"
- For this, you'll use the information in boxes 1 and 5 of Form 1098-T, the student's account statement, and book/supply purchase records
- If the student is only eligible for the Lifetime Learning Credit, this worksheet can still be used, you'd just replace all "\$4,000" entries on the sheet with \$10,000 since that is the maximum amount of expenses for the LLC.

Figuring Out The AOTC: Example

1098-T Box 1: \$7,000

Scholarships and grants: \$8,000

Books: \$300

Option 1		Option 2	
Total Qualified expenses < Total scholarships and grants	\$7,300 < 8,000, so not claiming any AOTC	Qualified Education expense for AOTC	\$7,300> \$4,000, therefore use \$4,000
Scholarships and grants	\$8,000	Add: Total scholarships and grants - Total	(\$8,000-\$7,300)= \$700
Less: Total qualified education expenses	\$7,300	Qualified education expenses	
Taxable Scholarships	\$700	Taxable Scholarships	\$4,700

Note: If the student is a child, the child may be subject to the Kiddie Tax. This must be taken into consideration when making determinations to maximize the education credit.

Entering Education Credits in TaxSlayer

Using the 1098-T and **Education Credit** Worksheet, select whether they are claiming the AOTC or LLC, enter the amount of qualified expenses and complete the rest of the page, filling in the school information and answering the required questions.

