



## 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

Complete if client has a Form 1098-T or Other Education Expenses. Must have account summary from institution.

1. Is the taxpayer being claimed by someone as a dependent?	<input type="checkbox"/> No <input type="checkbox"/> Yes, stop, education credit cannot be claimed.
2. Is the taxpayer's filing status married filing separately?	<input type="checkbox"/> No <input type="checkbox"/> 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?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4. Did the student receive a Form 1098-T from an eligible educational institution for the tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> 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?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6. Does the 1098-T for the current tax year have an amount in boxes 4 or 6?	<input type="checkbox"/> No <input type="checkbox"/> 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?	<input type="checkbox"/> Yes <input type="checkbox"/> No
8. Was the student enrolled at least half-time?	<input type="checkbox"/> Yes <input type="checkbox"/> No
9. Did the student complete the first 4 years of post-secondary education before the tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
10. Was the student convicted, before the end of the tax year, of a felony for possession or distribution of a controlled substance?	<input type="checkbox"/> Yes <input type="checkbox"/> No

11. Did the student pay for books, supplies, or equipment out of their pocket?	<input type="checkbox"/> No <input type="checkbox"/> Yes; Amount: _____
12. Did scholarships or tax-free funds cover all educational expenses?	<input type="checkbox"/> Yes <input type="checkbox"/> No
13. Were room and board, insurance, medical expenses, transportation or other living expenses included in the tuition?	<input type="checkbox"/> No <input type="checkbox"/> Yes, subtract from qualified expenses
14. Did the student receive any refunds from tuition over-payments or class withdrawals?	<input type="checkbox"/> Yes <input type="checkbox"/> No
15. Which education credit is the client eligible for?	<input type="checkbox"/> AOC <input type="checkbox"/> 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.

CORRECTED		OMB No. 1545-1574		Tuition Statement	
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number Clark University 150 Learning Drive Memphis, TN 38101		<b>1</b> Payments received for qualified tuition and related expenses \$ 7,000	<b>2024</b> Form 1098-T		<b>Copy B For Student</b>  This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. 98-000XXXX STUDENT'S TIN XXX-XX-XXXX		<b>3</b>		<b>4</b> Adjustments made for a prior year \$ OOS	
STUDENT'S name Sarah Pine		<b>6</b> Adjustments to scholarships or grants for a prior year \$ OOS	<b>7</b> Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2025 <input type="checkbox"/>		
Street address (including apt. no.) 123 Main Street City or town, state or province, country, and ZIP or foreign postal code Memphis, TN 38101		<b>8</b> Checked if at least half-time student <input checked="" type="checkbox"/>	<b>9</b> Checked if a graduate student <input type="checkbox"/>		<b>10</b> Ins. contract reimb./refund \$
Service Provider/Acct. No. (see instr.)					

Form **1098-T** (keep for your records) [www.irs.gov/Form1098T](http://www.irs.gov/Form1098T) Department of the Treasury - Internal Revenue Service

- 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.

1 Payments received for qualified tuition and related expenses <b>\$ 7,000</b>		OMB No. 1545-1574	<b>Tuition Statement</b>
2		Form <b>1098-T</b>	
3		<b>Copy B For Student</b>  This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.	
4 Adjustments made for a prior year <b>\$</b>	5 Scholarships or grants <b>\$ 3,000</b>		
6 Adjustments to scholarships or grants for a prior year <b>\$</b>	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2023 <input type="checkbox"/>		
9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund <b>\$</b>		
www.irs.gov/Form1098T			

# 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.**

Tuition Statement	
1 Payments received for qualified tuition and related expenses \$ 7,000	OMB No. 1545-1574
2	Form 1098-T
3	<b>Copy B For Student</b>
4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 3,000
6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January-March 2023 <input type="checkbox"/>
9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$

www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

# 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	Less Scholarships and Grants	(\$8,000)
Scholarships and grants: \$8,000	Total	\$5,300
Books: \$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 expenses- scholarships 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 Qualified education expenses	(\$8,000-\$7,300)= \$700
Less: Total qualified education expenses	\$7,300		
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.

**Select the type of credit \***

American Opportunity  
 Lifetime Learning

**Qualified Expenses \***  
Please ensure that you reduce the amount entered for "qualified expenses" by any scholarships / grants received, pursuant to [IRS Publication 970](#).

\$

[Add Another Institution](#)

**Institution 1**

Name \*

Check here if foreign address

Address (street number & name) \*

ZIP code \*  
 -

City, town, or post office \*

State \*  
- Please Select -

Did the student receive Form 1098-T from this institution for 2021? \*  
 Yes  
 No

Did the student receive Form 1098-T from this institution for 2020 with Box 2 filled in and Box 7 checked? \*  
 Yes  
 No

Enter the Institution's Federal Identification Number (from Form 1098-T)  
 -

**Has the Hope Scholarship Credit or American Opportunity Credit already been claimed on 4 prior tax returns? \***

Yes  
 No