



Education Guide Number **4** Tax Credits for Education

If you, your spouse, and/or a dependent are currently taking college courses or other post-secondary training, you may benefit from two federal tax relief programs -- American Opportunity Credit and Lifetime Learning Credit. These tax credit programs help you offset the costs of higher education by reducing the amount of your federal income tax.

For tax year 2011, the following changes have been made to the American Opportunity Credit.

For more information, see Chapter 2 of [Publication 970, Tax Benefits for Education](#).

American Opportunity Credit

For 2011, you may be able to claim an American Opportunity Credit of up to \$2,500 for qualified education expenses paid for *each* eligible student.

A tax credit reduces the amount of income tax you may have to pay. Unlike a deduction, that reduces the amount of income subject to tax, a credit directly reduces the tax itself. Forty percent of the American Opportunity credit may be refundable. This means that if the refundable portion of your credit is more than your tax, the excess will be refunded to you.

The amount of the American Opportunity Credit (per eligible student) is \$2,500 the sum of:

- 100% of the first \$2,000 of qualified education expense you paid for the eligible student (\$2,000), and
- 25% of the next \$2,000 of qualified education expenses you paid for that student (\$500).

The maximum amount of American Opportunity Credit you can claim in 2011 is \$2,500 x the number of eligible students. You can claim the full \$2,500 for each eligible student for whom you paid at least \$4,000 of qualified educational expenses.

Example: If you are expecting a tax refund of \$300 before claiming the American Opportunity credit, and you paid \$4,000 in tuition after claiming the American Opportunity credit, your refund will be \$2,800.

100% of first \$2,000 (\$2,000) plus 25% of next \$2,000 (\$500) [\$2,500] + \$300 (refund) = \$2,800.

Lifetime Learning Credit

This credit is for students pursuing their education beyond their first two years, or for students continuing their education on less than a half-time basis, including working Americans pursuing lifelong learning to upgrade their skills.

The maximum amount of the Lifetime Learning Credit is \$2,000. 20% of the first \$10,000 of qualified education expenses you paid for **all** eligible students (20% X \$10,000 = \$2,000).

Example: If you are expecting a tax refund of \$300 before claiming the Lifetime Learning Credit, and you paid \$4,000 in tuition after claiming the Lifetime Learning Credit, your refund will be \$1,100.

$$20\% \text{ of } \$4,000 (\$800) + \$300 \text{ (refund)} = \$1,100.$$

Rules that Apply to American Opportunity and Lifetime Learning Credits

Eligibility

You, your spouse, or your dependents are eligible if enrolled at an eligible educational institution for at least one academic period (semester, trimester, quarter) during the year. An eligible educational institution generally includes any accredited public, nonprofit, or proprietary post-secondary institution eligible to participate in the student aid programs sponsored by the U.S. Department of Education.

You cannot claim this credit if your filing status is married, filing separate returns. Married employees may want to calculate their taxes both ways (filing jointly and separately) to see which is more advantageous to them.

Income Phase Out

Your education credits are gradually reduced if your modified adjusted gross income is between \$60,000 and \$90,000 (or \$120,000 and \$180,000 in the case of a joint return). If your adjusted gross income is over \$90,000 (or \$180,000 for joint filers) you cannot claim these credits.

Qualified Expenses

Qualified expenses include tuition and fees required for enrollment or attendance at an eligible educational institution. Books, room and board, insurance, equipment, transportation, or other personal living or family expenses are not considered qualified expenses. Fees are only included as qualified tuition and related expenses if they must be paid **to the institution** as a condition of enrollment or attendance.

If you pay for qualified tuition in an academic period that begins in the first three months of the following year, you can use this amount in figuring your credit for the prior year. This means that if you pay money in December 2011 for tuition due for the winter/spring term of 2012, you can use that amount in figuring your 2012 credit on your tax form.

Higher Education Tax Credits at a Glance

- Do not rely on this chart alone. It provides only general highlights about some of the differences between the two credits.

| | American Opportunity Credit | Lifetime Learning Credit |
|--|---|---|
| Maximum Credit | Up to \$2,500 credit per eligible student | Up to \$2,000 credit per return |
| Limit on modified adjusted gross income (MAGI) | \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er) | \$120,000 if married filing jointly; \$60,000 if single, head of household, or qualifying widow(er) |
| Refundable | 40% of credit may be refundable; the rest is nonrefundable | Nonrefundable – credit limited to the amount of tax you must pay on your taxable income |
| Number of years of postsecondary education | Available ONLY for the first 4 years of postsecondary education | Available for an unlimited number of years |

Source: U.S. Internal Revenue Service, Publication 970: *Tax Benefits for Education*

How to Apply

Instructions accompanying Tax Form 8863: Education Credits (American Opportunity and Lifetime Learning Credits) will explain how to calculate the credits and how to claim them on your tax return.

Common Questions and Answers about the American Opportunity and Lifetime Learning Credits

Q. What is the difference between the American Opportunity and Lifetime Learning Credits?

A. The American Opportunity Credit can be claimed for the same student for no more than 4 tax years. There is no limit on the number of years for which you can claim a Lifetime Learning Credit based on the same student's expenses.

Q: Who Can Claim the Credit?

A: Generally, you can claim the American Opportunity or Lifetime Learning Credit if all three of the following requirements are met.

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse, or a dependent for which you claim an exemption on your tax return.

Q. Can I claim more than one education credit this year?

A. For each student, you can elect for any year only one of the credits. For example, if you elect to take the American Opportunity Credit for a student on your 2011 tax return, you cannot, for that same student, also claim the Lifetime Learning Credit for 2011.

If you are eligible to claim the American Opportunity Credit and you are also eligible to claim the Lifetime Learning Credit for the same student in the same year, you can choose to claim either credit, but not both.

Where to Find Additional Information

IRS Public Information Line at 800-829-1040

IRS website at www.irs.gov

NYS & CSEA Partnership for Education and Training Office at www.nyscseapartnership.org

PEF Education and Training Office at www.pef.org

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