

# Fact Sheet

## Module 10: Education Credits

Taxpayers have two credits available to help offset the costs of higher education, by reducing their income tax. These credits are the American Opportunity Credit and Lifetime Learning Credit, also referred to as education credits.

The requirements for taking these credits depend on:

- the taxpayer's filing status and AGI or MAGI
- eligible education institution
- qualified tuition and related expenses

The American Opportunity and Lifetime Learning Credits are claimed on Form 8863, which can be filed with either Form 1040 or Form 1040A.

Form <b>8863</b> <small>Department of the Treasury Internal Revenue Service (99)</small>	<b>Education Credits</b> <b>(American Opportunity and Lifetime Learning Credits)</b> ▶ Attach to Form 1040 or Form 1040A. ▶ Information about Form 8863 and its separate instructions is at <a href="http://www.irs.gov/form8863">www.irs.gov/form8863</a> .	OMB No. 1545-0074 <b>2014</b> Attachment Sequence No. <b>50</b>
Name(s) shown on return		Your social security number
<b>CAUTION</b> Complete a separate Part III on page 2 for each student for whom you are claiming either credit before you complete Parts I and II.		
<b>Part I Refundable American Opportunity Credit</b>		
1	After completing Part III for each student, enter the total of all amounts from all Parts III, line 30	1
2	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	2
3	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see Pub. 970 for the amount to enter	3
4	Subtract line 3 from line 2. If zero or less, <b>stop</b> ; you cannot take any education credit	4
5	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	5
6	If line 4 is: • Equal to or more than line 5, enter 1.000 on line 6 • Less than line 5, divide line 4 by line 5. Enter the result as a decimal (rounded to at least three places)	6
7	Multiply line 1 by line 6. <b>Caution:</b> If you were under age 24 at the end of the year <b>and</b> meet the conditions described in the instructions, you <b>cannot</b> take the refundable American opportunity credit; skip line 8, enter the amount from line 7 on line 9, and check this box <input type="checkbox"/>	7
8	<b>Refundable American opportunity credit.</b> Multiply line 7 by 40% (.40). Enter the amount here and on Form 1040, line 68, or Form 1040A, line 44. Then go to line 9 below.	8
<b>Part II Nonrefundable Education Credits</b>		
9	Subtract line 8 from line 7. Enter here and on line 2 of the Credit Limit Worksheet (see instructions)	9
10	After completing Part III for each student, enter the total of all amounts from all Parts III, line 31. If zero, skip lines 11 through 17, enter -0- on line 18, and go to line 19	10
11	Enter the smaller of line 10 or \$10,000	11
12	Multiply line 11 by 20% (.20)	12
13	Enter: \$128,000 if married filing jointly; \$64,000 if single, head of	

## **Education Credits Requirements and Limits**

The requirements for claiming these credits include:

- filing status and modified adjusted gross income (AGI) of the taxpayer
- whether the student and the educational institution are eligible
- what the expenses were for—only tuition and related expenses qualify
  - related expenses are course-related books and materials, supplies and equipment, and student activities

Students who are ITIN holders must meet the resident requirement as described in Publication 519 in order to qualify for these credits.

There are income limits to the American Opportunity Credit and the Lifetime Learning Credit.

### **American Opportunity Credit**

The American Opportunity Credit allows taxpayers to claim a credit of up to \$2,500 based on qualified tuition and related expenses paid for each eligible student. To be eligible for the credit, the student must be:

- Enrolled in a program that leads to a degree, certificate or other recognized educational credential
- Taking at least one-half of the required workload for the course of study for at least one academic period beginning during the calendar year
- Enrolled in the first four years of postsecondary education
- Free of any felony conviction for possessing or distributing a controlled substance

Taxpayers whose modified AGI is \$90,000 or more (\$180,000 or more if married filing jointly) are not eligible to take the credit. For taxpayers whose modified AGI is over \$80,000 (over \$160,000 if married filing jointly), the credit is phased out (gradually reduced).

### **Lifetime Learning Credit**

Taxpayers may claim a Lifetime Learning Credit of up to \$2,000 based on qualified tuition and related expenses paid for *all* eligible students enrolled in eligible educational institutions.

The Lifetime Learning Credit is based on the total qualified education expenses paid by the taxpayer and not on the number of eligible students. Education expenses that qualify for the Lifetime Learning Credit are for courses:

- taken as part of a postsecondary degree program, or
- taken to improve or acquire job skills

Taxpayers whose modified AGI is \$64,000 or more (\$128,000 or more if married filing jointly) are not eligible to take the credit. For taxpayers whose modified AGI is over \$54,000 (over \$108,000 if married filing jointly), the credit is phased out (gradually reduced). There is no limit on the number of years the Lifetime Learning Credit can be claimed.