



Lesson Plan

Education Credits

Time Required: 60 minutes

Introduction	Objectives	Topics
This lesson covers tax credits available to help the taxpayer offset the costs of higher education by reducing the amount of income tax.	Determine: <ul style="list-style-type: none">• Who qualifies for an education credit• Which credit the taxpayer can claim	 Dependents Eligible Institutions Qualifying Expenses American Opportunity Tax Credit Lifetime Learning Credit Choosing Between the Credits No Double Benefits Determining the Amount of the Credit

Key Terms

Adjusted Gross Income (AGI): The taxpayer's total adjusted gross income (AGI) is the amount that is used to compute some limitations, such as the medical and dental deduction on Schedule A and the credit for child and dependent care expenses.

American Opportunity Tax Credit: A credit of up to \$2,500 for qualified education expenses paid for each eligible student. Forty percent of the credit is refundable, up to \$1,000. Changes to this credit (formerly called the Hope credit), made it available to a broader range of taxpayers, including higher income taxpayers and those who owe no tax.

Education Credits: Credits that reduce the amount of tax due and are based on qualified education expenses that the taxpayer paid during the tax year.

Lifetime Learning Credit: One of two tax credits available to offset costs of higher education by reducing the amount of income tax. The Lifetime Learning credit is a nonrefundable credit of up to \$2,000 for qualified education expenses for students enrolled in eligible educational institutions. It is available to students for all years of postsecondary education and for courses to acquire or improve job skills.

Nonrefundable Credit: A nonrefundable credit can only reduce the tax liability to zero. Any excess credit is not refunded to the taxpayer.

Qualified Tuition Program: A program set up to allow taxpayers to either prepay or contribute to an account established for paying a student's qualified expenses at an eligible educational institution. The program must meet certain requirements set by the state. Also known as a 529 program.

Qualifying Child: To be identified as a qualifying child and dependent, a person must meet these tests: U.S. citizen or resident test, Joint return test, Relationship test, Age test, Support test, Residence test, and Qualifying child of more than one person test.

Refundable Credit: Occurs when the amount of a credit is greater than the tax owed. Taxpayers not only can have their tax reduced to zero; they can also receive a “refund” of excess credit.

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	Review the online demo of TaxSlayer on Nonrefundable Credits.	TaxSlayer® Demo: From the Practice Lab, select: <ul style="list-style-type: none"> • TaxSlayer IRS training • Click the appropriate demo
Provide details and engage the students	<p>Discuss all tips and cautions in detail.</p> <p>Ask students to read and/or role-play examples and sample interviews.</p> <p>Review answers to each exercise; ask students how they arrived at their answers.</p>	<p>Internet: Link & Learn Taxes (L&LT) Education Credits</p>

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	<p>Review lesson objectives.</p> <p>Discuss this lesson is one of the eight lessons that cover the Tax and Credits section of the return.</p> <p>Review list of references.</p> <p>State the presentation time.</p> <p>Verify Form 13614-C, Part IV shows box for Education expenses is checked.</p>	<p>Visuals: Form 13614-C, Page 2, Part IV Form 1040, line 50 Pub 17, Chapter 35, Education Credits Pub 4012, Education Benefits tab</p>
Education Credits	<p>Ask: What are the types of education credits available to taxpayers? Answer: American opportunity and lifetime learning credits.</p> <p>Refer students to Pub 4012, Highlights of Education Tax Benefits for an overview of the various education benefits.</p> <p>Review Who Cannot Claim the Credit? in Pub 4012.</p>	<p>Visuals: Pub 4012, Education Benefits tab, Highlights of Education Tax Benefits Pub 4012, Education Benefits tab, Education Credits</p>

Dependents /
Eligible
Institutions

Review L< topic Dependents and Eligible Institutions.

Discuss expenses paid by a third party.

Advise students of new requirement that taxpayers claiming the American opportunity credit must report the EIN of the educational institution the student attended.

Ask: Can a taxpayer claim a credit for a student's qualified expenses if the student is not a dependent on the taxpayer's return? **Answer:** No, the student must be listed as a dependent on the taxpayer's return.

Refer students to the online searchable database of all accredited schools.

Visuals:

Pub 4012, Education Credits tab, [Education Credit Who can claim a dependent's expenses?](#)

Internet:

FAQ: [Can I claim an education credit if I am married but file separately?](#)

[Eligible institutions from U.S. Department of Education](#)

[Eligible schools by state](#), click link for School Code Search

Qualifying
Expenses

Review L< topic Determining Taxpayer Eligibility.

Review Pub 4012, What Expenses Qualify?, What are Qualifying Expenses?, and What is Tax-free educational assistance?

Prompt students to give examples of qualifying expenses and nonqualifying expenses.

Review Form 1098-T and caution students that a taxpayer's Form 1098-T might be incomplete; students should ask about qualified expenses actually paid and any tax-free scholarships and tuition program distributions.

Caution students to not reduce qualified education expenses by any scholarship or fellowship as income on tax return if use of scholarship is not restricted and used to pay nonqualified expenses.

Visual:

Pub 4012, Education Benefits tab, [Education Credits](#)

Pub 4012, [Determining Qualified Education Expenses](#)

Pub 4012, [Tax Treatment of Scholarship and Fellowship Payments](#)

[Form 1098-T, Tuition Statement](#)

Internet:

FAQ: [What expenses qualify for the education credits?](#)

FAQ: [Do tuition and related expenses paid to attend a private high school qualify?](#)

FAQ: [Is an education credit available for the cost of a high school student taking college classes before graduation from high school?](#)

American Opportunity Tax Credit	<p>Define the term “required expenses” for the students.</p> <p>Review L&LT topic American Opportunity Tax Credit.</p> <p>Ask: What type of students are covered by the American opportunity credit?</p> <p>Answer: Students in their first four years of college who are pursuing an undergraduate degree or recognized education credential.</p> <p>Review the requirements for taking the American opportunity credit using Pub 4012.</p> <p>Review the Tax Topics and FAQ found on IRS.gov</p>	<p>FAQ: Can I claim an education credit for higher education expenses paid by a government-subsidized loan?</p> <p>Visuals: Form 8863 Instructions</p> <p>Pub 4012, Education Benefits tab, Education Credits</p> <p>Internet: Tax Topic: American Opportunity Credit</p>
Lifetime Learning Credit	<p>Review L&LT topic Lifetime Learning Credit.</p> <p>Ask: What type of students may be eligible for the lifetime learning credit?</p> <p>Answer: Students beyond their first four years of college and/or students in a non-degree postsecondary program.</p> <p>Review the requirements for taking the lifetime learning credit using Pub 4012.</p> <p>Review the FAQs found on IRS.gov.</p>	<p>Visuals: Pub 4012, Education Benefits tab, Education Credits</p> <p>Internet: FAQ: What is a Lifetime Learning Credit? FAQ: Who can claim the Lifetime Learning Credit?</p>
Choosing Between the Credits	<p>Review L&LT topic Choosing Between the Credits.</p> <p>Review Pub 4012, Comparison of Education Credits.</p> <p>Review the Tax Topic found on IRS.gov.</p>	<p>Visuals: Pub 4012, Education Benefits tab: • Education Credits</p> <p>Internet: Tax Topic: Two Tax Credits to Help Pay Higher Education Costs</p>

No Double Benefits	Review L< topic No Double Benefits.	Visuals: Pub 4012, Education Benefits tab, Education Credits Schedule A Schedule C-EZ
Determining the Amount of the Credit	Review L< topic Determining the Amount of the Credit. Review the FAQs found on IRS.gov. Remind students that before they can determine the amount of the credit, they must decide between the credits. Demo the tax software by linking to Form 8863. Remind students that they must complete Part III for each eligible student for whom the taxpayer is claiming an education credit before completing Parts I and II. TaxSlayer performs the calculations. Remind students they must enter the total amount of qualifying expenses in the software, and they can choose which benefit is better. Caution that the software will not catch errors, such as taking more than one benefit for the same taxpayer.	Visuals: Form 8863 Pub 4012, Education Benefits tab, Nonrefundable Credits Pub 4012, Education Benefits, Entering Education Benefits Pub 970 Internet: FAQ: How is the amount of an education credit determined? FAQ: If I pay college tuition and fees with a tax-free scholarship...? FAQ: If the amount of my qualified tuition and related expenses is greater than the amount of my scholarship...? TaxSlayer Demo: Form 1040, line 50 Form 8863 Education Credits
Skills Workout	Review the lesson exercises with the class. Point out that taxpayers who must repay (recapture) part or all of an education credit claimed in a prior year must be referred to a professional tax preparer.	Visuals: L< Education Credits, Click Certification Warm Up icon to review the exercises

Practice	<p>Select the practice exercise on Form 8863 and Form 1040 line 50.</p> <p>Ask students to select the problem based on their certification course of study.</p> <p>Verify they have correctly entered the education credits.</p>	<p>Visuals: Publication 4491-W Advanced Comprehensive Problem and Practice Exercises</p>
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References

Form 1040 Instructions	Form 1040 Instructions , line 50
Form 8863	Form 8863, Education Credits (American Opportunity and Lifetime Learning Credits)
Form 8863 Instructions	Instructions for Form 8863
Form 13614-C	Form 13614-C , Intake/Interview & Quality Review Sheet, Page 2, Part IV
Pub 4012	Pub 4012, Volunteer Resource Guide, Education Benefits tab Education Credits Tax Treatment of Scholarship and Fellowship Payments Determining Qualified Education Expenses Entering Education Benefits References - Highlights of Education Tax Benefits
Pub 17	Pub 17 , Chapter 35, Education Credits
Pub 4491-W	Pub 4491-W – Advanced comprehensive problem or practice exercise(s) for Form 8863 and Form 1040, line 50

Optional

Pub 970	Pub 970, Tax Benefits for Education , Chapters 2 and 3
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Recommended Classroom Activities



Skills Workout



Certification Warm Up



Media: Videos & Audio



TaxSlayer Tutorial



Job Aids



Practice Lab



Skills Workout: Link & Learn Taxes Education Credits

Click Skills Workout for a new way to access Link & Learn Taxes Education Credits.



Certification Warm Up – Summary and Exercises

Click Certification Warm Up for a new way to access the Exercises in Link & Learn Taxes Education Credits.



Media: Video & Audio for Lesson

- YouTube video on Education Tax Credits
<http://www.youtube.com/watch?v=Q3anlwsvLQ>



TaxSlayer Tips and Resources for Lesson

Practice Lab Tutorial

1. Link to the [Practice Lab](#).
 2. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager).
 3. Sign in to Practice Lab or create an account.
 4. Select the appropriate tutorial.
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Job Aids

ITA and FAQs for Lesson

FAQs

Education Credits

<http://www.irs.gov/Help-&-Resources/Tools-&-FAQs/FAQs-for-Individuals/Frequently-Asked-Tax-Questions-&-Answers/Childcare-Credit,-Other-Credits/Education-Credits>

Tax Topics

Two Tax Credits to Help Pay Higher Education Costs

<http://www.irs.gov/uac/Two-Tax-Credits-to-Help-Pay-Higher-Education-Costs>

American Opportunity Credit

<http://www.irs.gov/uac/American-Opportunity-Tax-Credit>

Other

Searchable database of all accredited schools

<http://ope.ed.gov/accreditation>



Practice Lab

Practice Lab

<https://vita.taxslayerpro.com/IRSTraining/>
