

Guide to Federal

Tax Benefits

for higher education

Tax Year 2008 ▶





This publication covers a variety of important tax topics related to higher education. It is intended for your educational use and not as legal or tax advice; it does not cover every facet or the full scope of this subject. We highly recommend that you consult a professional tax advisor or attorney and encourage you to visit the Internal Revenue Service Web sites below, where you will find the complete text of various relevant IRS publications.

IRS Publications

- Publication 970: Tax Benefits for Higher Education
www.irs.gov/pub/irs-pdf/p970.pdf
- Form 8863 and Instructions: Education Credits (Hope and Lifetime Learning credits)
www.irs.gov/pub/irs-pdf/f8863.pdf
- Tax Topic 513: Educational Expenses
www.irs.gov/taxtopics/tc513.html
- Publication 501: Exemptions, Standard Deduction, and Filing Information
www.irs.gov/pub/irs-pdf/p501.pdf



EdFund is a nonprofit public benefit corporation committed exclusively to student loan services. Students, parents and schools depend on EdFund for accurate and current information on a range of student financial aid subjects.

This summary of tax benefits is intended to assist parents and students considering or currently paying for higher education.

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Hope Tax Credit

What Is It?

The Hope tax credit is subtracted from the tax your family owes, instead of subtracting it from taxable income like a tax deduction.

Your family can claim a tax credit up to \$1,800 for each eligible dependent for up to two tax years. The Hope credit is available only until the first two years of post-secondary education are complete.


The exact amount of the Hope credit depends on:

- your family's income,
- the amount of qualified education expenses* paid,
- the amount of certain scholarships and allowances subtracted from tuition, and
- how many eligible dependents are in your family (rather than a maximum dollar amount for the family, like the Lifetime Learning tax credit).

The Hope credit allows you to claim 100 percent of the first \$1,200 of qualified education expenses, and 50 percent of the next \$1,200 of qualified education expenses (for each eligible dependent). Therefore, the maximum Hope credit per student is \$1,800.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope credit. You cannot get a refund for the Hope credit if your family doesn't pay taxes. If your family owes less in taxes than the maximum amount of the Hope tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes. In addition, the taxpayer must claim an eligible student as a dependent on the tax return, unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) You cannot claim the Hope credit if your filing status is married, filing separately. You also cannot claim the credit if your modified adjusted gross income (MAGI) is \$58,000 or more for a single taxpayer, or \$116,000 or more for married taxpayers filing jointly. The credit amount is phased out (gradually reduced) for families with incomes between \$48,000 and \$58,000 if single, or



NOTE: These dollar amounts are doubled for eligible students attending graduate and undergraduate institutions in the Midwestern disaster area pursuant to the Tax Extenders and Alternative Minimum Relief Act of 2008. If this applies to you, you may claim 100 percent of the first \$2,400 of qualified education expenses* and 50 percent of the next \$2,400, for a maximum credit of \$3,600 per student. For more information on whether you qualify for the expanded benefits for students in the Midwestern disaster area, please visit www.irs.gov/pub/irs-drop/n-08-109.pdf.

**Qualified education expenses include tuition and certain related expenses required for enrollment in a course at an eligible educational institution. Related expenses include student-activity fees and expenses for course-related books, supplies and equipment only if these must be paid to the institution as a condition of enrollment or attendance. For eligible students in a Midwestern disaster area, qualified education expenses are expanded to include room, board, books and fees. This temporary expansion applies to tax years 2008 and 2009.*

\$96,000 and \$116,000 if married. Additionally, you cannot claim the credit if you (or your spouse) were a nonresident alien for any part of 2008 and the nonresident alien did not elect to be treated as a resident alien. Consult a tax advisor for more information.

The Student: The tax law says an eligible student must be enrolled at least half time in an eligible program leading to a degree or certificate at an eligible school during the calendar year AND must not have completed the first two years of undergraduate study. The college can help you determine whether it meets this requirement. You can claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Again, this means that the eligible student can also be the eligible taxpayer.) Also, you must not have been convicted of a federal or state felony drug offense before the end of the tax year in which you are enrolled.



You may be able to claim a Hope credit of up to \$1,800 for qualified education expenses paid for each eligible student.

How Do You Get It?

To apply for the credit, the taxpayer must report the amount of tuition and fees paid, as well as the amount of certain scholarships, grants and untaxed income used to pay the tuition and fees. By law, schools must send this information in the form of a **1098-T statement** to each taxpayer and to the IRS. For tax year 2008, colleges and universities are expected to fill out all sections of IRS Form 1098-T before sending them to students. (*Your school should have mailed this to you by February 2, 2009.*) The statement includes the phone number of a person you can call at the school if you have questions. You will use this information and your own records about tuition and fee amounts you paid to fill out the supplementary IRS Form 8863 to claim the Hope credit. You may wish to talk to a tax advisor for help in calculating the amount of your credit.

When Is It Available?

Generally, the credit is allowed for qualified tuition and expenses paid in 2008 in connection with enrollment at an institution of higher education during 2008 or for an academic period beginning in 2008 or in the first three months of 2009. For instance, if you paid \$1,500 in December 2008 for qualified tuition for a spring 2009 semester that begins in January 2009, you can use that \$1,500 in calculating your 2008 credit.

Can A Family Claim Multiple Benefits?

You cannot claim both the Hope and Lifetime Learning Credits for the same student. If there are multiple students in your family, your family can claim a Hope credit, a Lifetime Learning credit and an exclusion from gross income for certain distributions from qualified state tuition programs or education Investment Retirement Accounts (IRAs) as long as the same student is not used as the basis for each credit or exclusion AND the family does not exceed the Lifetime Learning maximum per family.

COMPARISON OF EDUCATION CREDITS

HOPE CREDIT	LIFETIME LEARNING CREDIT
Up to \$1,800 per eligible student	Up to \$2,000 per return
Available only until the first two years of postsecondary education are completed	Available for all years of postsecondary education and for courses to acquire or improve job skills
Available only for two years per eligible student	Available for an unlimited number of years
Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply

Reprinted courtesy of: Internal Revenue Service Publication 970 "Tax Benefits for Education"

Lifetime Learning Tax Credit

What Is It?

The Lifetime Learning credit is subtracted from the taxes your family owes, rather than reducing taxable income like a tax deduction does.

As of tax year 2008, your family can claim a tax credit of up to \$2,000 per tax year for the taxpayer, taxpayer's spouse or any eligible dependents for an unlimited number of tax years. The amount of the Lifetime Learning tax credit is 20 percent of the first \$10,000 of qualified education expenses* paid for all eligible students. Therefore, the maximum amount of a Lifetime Learning tax credit is \$2,000. The Lifetime Learning credit is available for all years of postsecondary education and for courses to acquire or improve job skills. Unlike the Hope credit (which is only available for two years) the Lifetime Learning credit is available for an unlimited number of years.

This credit is family-based (up to \$2,000 per tax return) rather than based on the number of dependents in your family, as with the Hope credit.

The actual amount of the credit depends on:

- your family's income,
- the amount of qualified tuition and fees paid, and
- the amount of certain scholarships and allowances subtracted from tuition.

NOTE: The maximum Lifetime Learning credit is doubled for students attending graduate and undergraduate institutions in the Midwestern disaster area. If this applies to you, you can claim up to 40 percent of the first \$10,000 in qualified education expenses* for a maximum credit of \$4,000. For more information on whether you qualify for expanded benefits for students in the Midwestern disaster area, please visit www.irs.gov/pub/irs-drop/n-08-109.pdf.



**Qualified education expenses include tuition and certain related expenses required for enrollment in a course at an eligible educational institution. The course must be either part of a postsecondary degree program or taken by the student to acquire or improve job skills. Related expenses include student-activity fees and expenses for course-related books, supplies and equipment only if these must be paid to the institution as a condition of enrollment or attendance. For eligible students in a Midwestern disaster area, qualified education expenses are expanded to include room, board, books and fees. This temporary expansion applies to tax years 2008 and 2009.*

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a tax return and owe taxes to claim the credit. You cannot get a refund for the Lifetime Learning credit if your family doesn't pay taxes. If your family owes less in taxes than the maximum amount of the Lifetime Learning tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes. The taxpayer must also claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer can also be the eligible student.) You cannot claim the Lifetime Learning credit if your filing status is married, filing separately. You also cannot claim the credit if your modified adjusted gross income (MAGI) is \$58,000 or more (if single), or \$116,000 or more (if married). The credit amount is phased out (gradually

reduced) for families with incomes between \$48,000 and \$58,000 if single or between \$96,000 and \$116,000 if married. Additionally, you cannot claim the credit if you (or your spouse) were a nonresident alien for any part of 2008 and the nonresident alien did not elect to be treated as a resident alien. Consult a tax advisor for more information.

The Student: An eligible student can be enrolled in an eligible program leading to an undergraduate or graduate degree at an eligible school during the calendar year OR can be enrolled in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. You can claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Again, this means that the eligible student can also be the eligible taxpayer.)

How Do You Get It?

To apply for the credit, the taxpayer must report the amount of tuition and fees paid, as well as the amount of certain scholarships, grants and untaxed income used to pay the tuition and fees. By law, schools must send this information in the form of a **1098-T statement** to each taxpayer and to the IRS. For tax year 2008, colleges and universities are expected to fill out all sections of IRS Form 1098-T before sending them to students. (*Your school should have mailed this to you by February 2, 2009.*) The statement includes the phone number of a person you can call at the school if you have questions. You will use this information and your own records about tuition and fee amounts you paid to fill out the supplementary IRS Form 8863 to claim the Lifetime Learning credit. You may wish to talk to a tax advisor for help in calculating the amount of your credit.



When Is It Available?

Generally, the credit is allowed for qualified tuition and expenses paid in 2008 in connection with enrollment at an institution of higher education during 2008 or for an academic period beginning in 2008 or in the first three months of 2009. For instance, if you paid \$1,500 in December 2008 for qualified tuition for a spring 2009 semester that begins in January 2009, you can use that \$1,500 in calculating your 2008 credit.

Can A Family Claim Multiple Benefits?

You cannot claim both the Hope and Lifetime Learning Credits for the same student. If there are multiple students in your family, your family can claim a Lifetime Learning credit, a Hope credit and an exclusion from gross income for certain distributions from qualified state tuition programs or education IRAs as long as the same student isn't used as the basis for each credit or exclusion AND the family doesn't exceed the Lifetime Learning maximum per family.

Tuition and Fees Tax Deduction

What Is It?

The Tuition and Fees Tax Deduction can reduce the amount of your taxable income by as much as \$4,000 per year for tax year 2008. This deduction is subtracted from your income, which means you can claim it even if you do not itemize your deductions on Schedule A of Form 1040. This deduction can benefit you if you do not qualify for either the Hope or Lifetime Learning tax credits.

For tax year 2008, you can deduct up to \$4,000 in tuition and fees required for enrollment or attendance at an eligible postsecondary institution. You *cannot* deduct expenses for personal, living or family expenses, including room and board, insurance, medical expenses and transportation.*

The exact amount of the Tuition and Fees Tax Deduction depends on the qualified education expenses* that you pay for yourself, your spouse or a dependent for whom you are entitled to claim an exemption on your tax return.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return to claim the Tuition and Fees Tax Deduction. In addition, the taxpayer must claim an eligible student (one who is enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return, unless the deduction is for the taxpayer or the taxpayer's spouse. You cannot claim the Tuition and Fees Tax Deduction if your filing status is married, filing separately. For tax year 2008, the

*Qualified education expenses include tuition and certain related expenses required for enrollment at an eligible institution. Related expenses include student-activity fees and expenses for course-related books, supplies and equipment only if these must be paid to the institution as a condition of enrollment or attendance. **NOTE:** Qualified education expenses are expanded for students in a Midwestern disaster area. See page 136 of IRS Publication 17 at www.irs.gov/pub/irs-pdf/p17.pdf.

maximum amount of qualified education expenses you can take into account in figuring your Tuition and Fees Tax Deduction is \$4,000 if your modified adjusted gross income (MAGI) is not more than \$65,000 (\$130,000 if you are married, filing jointly). If your MAGI is larger than \$65,000 (\$130,000 if you are married, filing jointly), but is not more than \$80,000 (\$160,000 if you are married, filing jointly), your maximum Tuition and Fees Tax Deduction is \$2,000. No Tuition and Fees Tax Deduction is allowed if your MAGI is larger than \$80,000 (\$160,000 if you are married, filing jointly).

Additionally, you cannot claim the credit if you (or your spouse) were a nonresident alien for any part of 2008 and the nonresident alien did not elect to be treated as a resident alien. Consult a tax advisor for more information.

The Student: An eligible student must be enrolled in one or more courses at an eligible educational institution. An eligible educational institution is any college, university, vocational school or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. According to the IRS, "it includes virtually all accredited public, nonprofit and proprietary postsecondary institutions." The college you attend can help you figure out whether they meet this requirement. You can claim the deduction yourself if you are not claimed as a dependent by another taxpayer.

How Do You Get It?

To receive the deduction, the taxpayer must complete Form 8917, *Tuition and Fees Deduction*, and file it with Form 1040 or Form 1040A.

An eligible institution that received payment for tuition and fees in the 2008 tax year generally must have issued IRS Form 1098-T (the *Tuition Payments Statement*) to each student by February 2, 2009. The information on that form will help you determine whether you can claim a deduction for 2008.

When Is It Available?

Generally, the deduction is allowed for qualified tuition and expenses paid in 2008 in connection with enrollment at an institution of higher education during 2008 or for an academic period beginning in 2008 or in the

first three months of 2009. For instance, if you paid \$1,500 in December 2008 for qualified tuition for a spring 2009 semester that begins in January 2009, you can use that \$1,500 in calculating your 2008 deduction.

Can A Family Claim Multiple Benefits?

Your family can claim this deduction along with a Hope credit, a Lifetime Learning credit, and an exclusion from gross income for certain distributions from qualified state tuition programs or education IRAs, as long as the same student is not used as the basis for each deduction, credit or exclusion and the family does not exceed the Lifetime Learning maximum per family.

You cannot take the Tuition and Fees Tax Deduction if you deduct tuition and fees expenses under any other provision of the law—for example, as a business expense. You generally cannot claim more than one benefit for the same qualifying education expense.

You also cannot claim the deduction if the tuition and fees were paid with a tax-free scholarship, grant or other education assistance. (Grants can include Pell Grants. Other assistance can include employer-provided education assistance and other non-taxable benefits received to pay for education expenses.)

TUITION AND FEES DEDUCTION AT A GLANCE

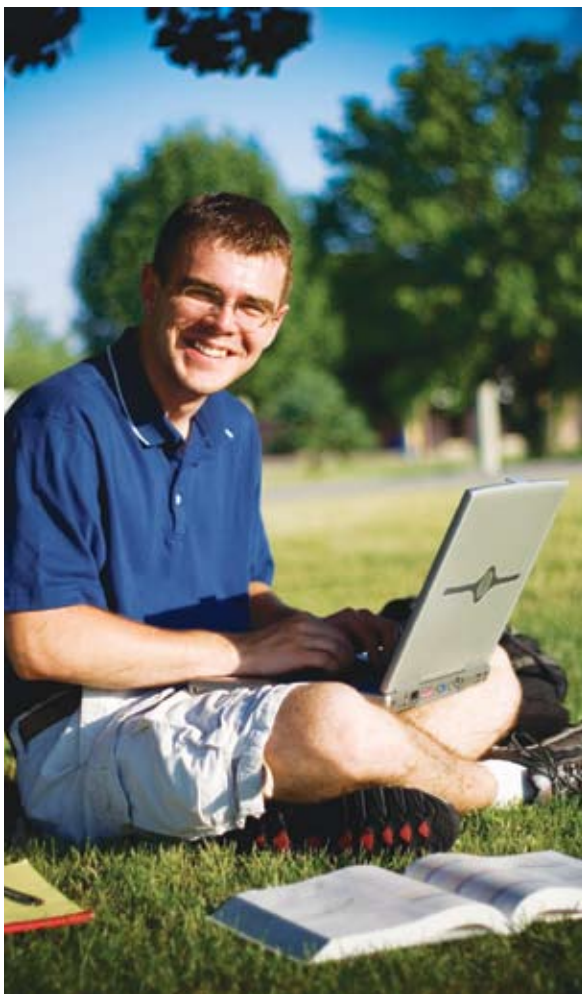
QUESTION	ANSWER
What is the maximum benefit?	You can reduce your income subject to tax by up to \$4,000
Where is the deduction taken?	As an adjustment to income on Form 1040 or Form 1040A
For whom must the expenses be paid?	A student enrolled in an eligible educational institution who is either: <ul style="list-style-type: none"> • you, • your spouse, or • your dependent for whom you claim an exemption
What tuition and fees are deductible?	Tuition and fees required for enrollment or attendance at an eligible postsecondary educational institution, but not including personal, living or family expenses, such as room and board (see note, bottom of page 6)

Reprinted courtesy of: Internal Revenue Service Publication 970 "Tax Benefits for Education"

Coverdell Education Savings Account (ESA)

What Is It?

A Coverdell Education Savings Account (ESA) is a savings account that is set up to pay the qualified education expenses* of a child who is designated the beneficiary of the account. When the account is established, the child must be under 18 or a special needs beneficiary. The account must also be designated as a Coverdell ESA when it is created. There is no limit on the number of separate Coverdell ESAs that can be established for a beneficiary. However, total contributions for the beneficiary in any year cannot exceed \$2,000, no matter how many accounts have been established.



Contributions to a Coverdell ESA are not tax deductible, but earnings in the account are tax free as long as the funds are used for qualified education expenses.

Who Qualifies?

The Taxpayer: If your modified adjusted gross income (MAGI) is less than \$110,000 (\$220,000 if married, filing jointly), you can establish a Coverdell ESA to finance the qualified education expenses of a designated beneficiary. Organizations such as corporations and trusts can contribute to Coverdell ESAs; however, the contributions must be in cash, made before the designated beneficiary turns 18 (unless the child is a special needs beneficiary), and they must be made by the due date of the contributor's tax return (not including extensions).

Generally, you can contribute up to \$2,000 for each designated beneficiary for 2008.

The Student: A designated beneficiary who is under age 18 or is a special needs beneficiary qualifies for the Coverdell ESA. For 2008, the total of all contributions cannot exceed \$2,000 per child, no matter how many savings accounts have been set up for a single designated beneficiary.

How Do You Get It?

The designated beneficiary of a Coverdell ESA can take a distribution at any time. Generally, the distributions are tax free if they are not more than the beneficiary's adjusted qualified education expenses for the year.

At the end of the year, the beneficiary must pay a 6 percent excise tax on excess contributions in a Coverdell ESA.

**Qualified education expenses include tuition, fees, books, supplies, equipment and expenses of a special needs beneficiary required for enrollment or attendance at an eligible institution. Expenses for room and board may be eligible if the student is enrolled at least half time.*

COVERDELL ESA AT A GLANCE

QUESTION	ANSWER
What is a Coverdell ESA?	A savings account that is set up to pay the qualified education expenses of a designated beneficiary
Where can it be established?	It can be opened in the United States at any bank or other IRS-approved entity that offers Coverdell ESAs
Who can have a Coverdell ESA?	Any beneficiary who is under age 18 or is a special needs beneficiary
Who can contribute to a Coverdell ESA?	Generally, any individual (including the beneficiary) whose modified adjusted gross income for the year is less than \$110,000 (\$220,000 in the case of a joint return)
Are distributions tax free?	Yes, if the distributions are not more than the beneficiary's adjusted qualified education expenses for the year
Are contributions deductible?	No
Why should someone contribute to a Coverdell ESA?	Earnings on the account grow tax free until distributed
What is the annual contribution limit per designated beneficiary?	Cash-only contributions of \$2,000 for each designated beneficiary, no matter how many Coverdell ESAs are set up for that beneficiary or how many individuals contribute
When must contributions stop?	No contributions can be made to a beneficiary's Coverdell ESA after he or she reaches age 18, unless the beneficiary is a special needs beneficiary

Information courtesy of: Internal Revenue Service Publication 970 "Tax Benefits for Education"

When Is It Available?

When a student is enrolled at an eligible postsecondary school, the savings account can be withdrawn to pay for qualified higher education expenses. These include tuition and fees; books, supplies and equipment; special needs services (for a special needs beneficiary); and room and board, so long as the beneficiary is enrolled at least half time.

No contributions can be made to a designated beneficiary after he or she reaches age 18, unless the student is a special needs beneficiary.

Can A Family Claim Multiple Benefits?

The Hope or Lifetime Learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from a Coverdell ESA as long as the same expenses are not used for both benefits.

Contributions can be made without penalty to both a Coverdell ESA and a Qualified Tuition Program (QTP) in the same year for the same beneficiary. However, if the total distribution is more than the beneficiary's adjusted qualified higher education expenses, those expenses must be allocated between the distributions from the Coverdell ESA and the QTP before figuring how much of each distribution is taxable.

NOTE: As of this printing, regulations defining a "special needs beneficiary" have not been released by the IRS.

Qualified Tuition Programs (QTP)



What Is It?

A Qualified Tuition Program (QTP) is a program set up to prepay, or contribute to an account established for paying, a student's qualified education expenses* at an eligible educational institution. QTPs can be established and maintained by states (state programs are called "529 plans") and eligible educational institutions. If you prepay tuition, the student (designated beneficiary) will be entitled to a waiver or a payment of qualified education expenses. You cannot deduct either payments or contributions to a QTP.

Who Qualifies?

The designated beneficiary is generally the student (or future student) for whom the QTP is intended. The beneficiary can be changed after participation in the QTP begins. If a state or local government or certain tax-exempt organizations purchase an interest in a QTP as part of a scholarship program, the beneficiary is the person who receives the interest as a scholarship.

How Do You Get It?

Contributions to a QTP cannot be more than the amount necessary to provide for the qualified education expenses of the designated beneficiary.

There are no income restrictions on the individual contributors. You can contribute to both the QTP and a Coverdell ESA in the same year for the same designated beneficiary.

A Hope or Lifetime Learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from a QTP, as long as the same expenses are not used for both benefits.

When Is It Available?

The benefit becomes available as soon as the student incurs qualified education expenses.

Can A Family Claim Multiple Benefits?

If a designated beneficiary receives distributions from the QTP and a Coverdell ESA in the same year, and the distributions total more than the beneficiary's adjusted qualified higher education expenses, the expenses must be allocated between the distributions. Any amount distributed from a QTP is not taxable if it is rolled over to another QTP for the benefit of the same beneficiary or for the benefit of a member of the beneficiary's family (including the beneficiary's spouse). An amount is rolled over if it is paid to another QTP within 60 days after the date of the distribution.

Even if a QTP is used to finance a student's education, the student or student's parents may still be eligible to claim either the Hope credit or Lifetime Learning credit.



No tax is due on a distribution from a QTP unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses.

**Qualified education expenses include tuition, fees, books, supplies, equipment and expenses of a special needs beneficiary if required for enrollment or attendance at an eligible institution. Expenses for room and board may be eligible if the student is enrolled at least half time.*

Student Loan Interest Deduction

What Is It?

This deduction is an adjustment to income and can reduce the amount of your income subject to tax by up to \$2,500 in 2008.

Student loan interest is interest paid during the year on a qualified student loan used for higher education. It includes required and voluntary interest payments.

Who Qualifies?

The Taxpayer: You are eligible to claim the deduction if your loan was used solely to pay qualified education expenses* that were for you, your spouse or a dependent when you took out the loan; paid or incurred within a reasonable period of time before or after you took out the loan; and for higher education provided to an eligible student during an academic period. You cannot claim this deduction if your filing status is married, filing separately.

The amount of your student loan interest deduction is phased out (gradually reduced) if your modified adjusted gross income (MAGI) is between \$55,000 and \$70,000 (\$115,000 and \$145,000 if married, filing jointly). If your MAGI is \$70,000 or more (\$145,000 or more if married, filing jointly), you cannot take the deduction.

The Student: If the student is legally liable for the student loan, makes the interest payments on the loan during the tax year and is not claimed as a dependent by another taxpayer, he or she can claim the student loan interest deduction.

How Do You Get It?

Generally, you can claim the student loan interest deduction if all four requirements are met:

1. You paid interest on a qualified student loan,
2. No one else is claiming an exemption for you on his or her tax return, and
3. Your filing status is not “married, filing separately.”
4. You meet the income requirements as outlined above under “Who Qualifies?”

Your student loan interest deduction is generally the smaller of \$2,500 or the interest paid in 2008. In addition to simple interest on the loan, the following can be considered student loan interest:

- Loan origination fee
- Capitalized interest
- Interest on revolving lines of credit
- Interest on refinanced student loans



This deduction of up to \$2,500 is taken as an adjustment to income, which means you can claim it even if you do not itemize deductions on Schedule A (Form 1040).

When Is It Available?

The benefit is available for the tax year in which you paid interest on a qualified student loan. You can deduct all interest paid during the year on your student loan, including voluntary payments, until the loan is paid off.

Can A Family Claim Multiple Benefits?

The student loan interest deduction can be taken each tax year that you have paid interest on a qualified student loan. However, you must reduce your qualified education expenses by the amount paid for the expenses with the following tax-free items:

- Tax-free distributions from a qualified tuition program (QTP)
- Tax-free distributions from a Coverdell ESA
- Employer-provided education assistance
- Any other nontaxable payments received for education expenses

**Qualified education expenses are tuition, fees, room, board, books, supplies, equipment and other necessary expenses such as transportation.*



Federal Tax Benefits at a Glance

A Guide for Students and Parents – Tax Year 2008

You may be able to take advantage of a number of federal tax benefits, including credits, deductions and savings incentives, to offset your costs for college or career training. You will find details on all the tax benefits at the Internal Revenue Service Web sites listed at right. You can also check out EdFund's *Guide to Federal Tax Benefits for Higher Education* at www.edfund.org. We highly recommend you consult a professional tax advisor or attorney.

Tax Topic 513: *Educational Expenses*
www.irs.gov/taxtopics/tc513.html
 Form 8863 and Instructions: *Education Credits*
www.irs.gov/pub/irs-pdf/f8863.pdf
 Publication 970: *Tax Benefits for Higher Education*
www.irs.gov/publications/p970/index.html

WHAT IS IT?	HOPE TAX CREDIT	LIFETIME LEARNING TAX CREDIT	STUDENT LOAN INTEREST DEDUCTION	TUITION AND FEES DEDUCTION	COVERDELL EDUCATION SAVINGS ACCOUNT	529 COLLEGE SAVINGS PLANS (QUALIFIED TUITION PLANS)
HOPE TAX CREDIT	A tax credit for the first two years of postsecondary education. You can subtract up to \$1,800 a year in tuition and qualified college costs from the taxes you owe when you file your federal tax return.*	A tax credit for tuition and qualified expenses for higher education or career training. You can subtract up to \$2,000 a year in tuition and qualified college costs from the taxes you owe when you file your federal tax return.*	A tax deduction of up to \$2,500 of the interest you pay on your student loan each year, or the interest you pay on loans you received for your spouse's or child's education. The deduction will reduce the amount of your income that may be taxed by up to \$2,500. You can claim this deduction even if you do not itemize deductions on your federal tax return.	A tax deduction of up to \$4,000 for tuition and fees from your taxable income if you are not eligible for the Hope or Lifetime Learning tax credits. You do not have to itemize to take advantage of this tax benefit but you must complete Form 8917 and file it with Form 1040 or 1040A.	A savings account that is set up to pay qualified education expenses for a designated beneficiary. The beneficiary must be under the age of 18 or a special needs beneficiary.	An account that is set up to let you save for or prepay your or another beneficiary's college costs. Contributions grow tax-free and you pay no federal taxes on the money you withdraw for qualified education expenses. Each plan has its own annual and total contribution limits.
INCOME LIMITS	Taxpayers with a modified adjusted gross income of less than \$58,000 (less than \$116,000 if married and filing jointly). The credit is gradually reduced for those with incomes between \$48,000 – \$58,000 (\$96,000 – \$116,000 if married and filing jointly).	Taxpayers with a modified adjusted gross income of less than \$58,000 (less than \$116,000 if married and filing jointly). The credit is gradually reduced for those with incomes between \$48,000 – \$58,000 (\$96,000 – \$116,000 if married and filing jointly).	Taxpayers with a modified adjusted gross income less than \$70,000 (less than \$145,000 if married and filing jointly). The credit is gradually reduced for those with incomes between \$55,000 – \$70,000 (\$115,000 – \$145,000 if married and filing jointly).	Taxpayers with a modified adjusted gross income of no more than \$65,000 (no more than \$130,000 if married and filing jointly) may deduct up to \$4,000. Those with incomes of more than \$65,000 (more than \$130,000 if married and filing jointly) but not more than \$80,000 (\$160,000 if married and filing jointly) can deduct up to \$2,000.	Taxpayers with a modified adjusted gross income of less than \$10,000 (less than \$20,000 if married and filing jointly) can contribute to a Coverdell account.	There are no income restrictions on individual contributors.
ENROLLMENT STATUS	You must be enrolled at least half time in an eligible program leading to a degree or certificate.	You can be enrolled in an eligible postsecondary institution, or in any course of instruction at an eligible school to improve or acquire job skills. You do not need to be pursuing a degree or other recognized education credential.	You must have been enrolled at least half time in a degree program during the time of the loan.	You must be enrolled in at least one course at an eligible postsecondary institution.	You can make tax-free withdrawals for qualified higher education expenses when the beneficiary is enrolled at an eligible postsecondary school.	The beneficiary must be taking at least one course at an eligible postsecondary institution to make tax-free withdrawals.
BENEFITS	Up to \$1,800 a year of your—or your spouse's or your child's—college costs (100 percent of the first \$1,200 you pay for tuition and qualified expenses, and 50 percent of the next \$1,200, for each student).*	Up to \$2,000 a year of your qualified education expenses, or those of your spouse or child (20 percent of qualified costs up to \$10,000).* No limit on the number of years the credit can be claimed, if you qualify for both the Hope and Lifetime Learning tax credits, you can claim only one.	The maximum deduction is \$2,500.	Depending on your income, you can deduct up to \$4,000 of your tuition and fees (if you are not claimed as a dependent by another taxpayer) or those you paid for your child's or spouse's education.	Total contributions for the beneficiary in any year cannot be more than \$2,000. The amount of withdrawals you can make in a year cannot be more than actual qualified education expenses.	Contributions and earnings grow tax-free and you pay no federal taxes when you withdraw money for qualified education expenses.

*Hope and Lifetime Learning tax credits are temporarily doubled for students attending graduate and undergraduate institutions in a Midwestern disaster area. For these students, the maximum Hope credit is \$3,600 per student and the maximum Lifetime Learning credit is \$4,000. For more information, visit the IRS Web sites at the top of this page and look for information on tax year 2008.