



Education Tax Credits



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It's tax time, and your kitchen table is littered with papers and forms. As if this isn't bad enough, you recently paid your child's college semester bill, and you don't know where you'll find the money to pay the taxes that you expect to owe. Well, you might finally catch a break. Now that your child is in college, you might qualify for one of two education tax credits — the American Opportunity credit and the Lifetime Learning credit. And because a tax credit is a dollar-for-dollar reduction against taxes owed, it's more favorable than a tax deduction, which simply reduces the total income on which your tax is based.

American Opportunity credit

The American Opportunity credit is a tax credit that covers the first four years of your, your spouse's or your child's undergraduate education. Graduate and professional courses aren't eligible. The credit is worth a maximum of \$2,500. It's calculated as 100% of the first \$2,000 of tuition and related expenses that you've paid for the year, plus 25% of the next \$2,000 of such expenses.

To take the credit, both you and your child must clear some hurdles:

- To qualify for the maximum American Opportunity credit in 2020, your MAGI must be below \$80,000 if you're a single filer and \$160,000 if you're a joint filer. A partial credit is available for single filers with a MAGI between \$80,000 and \$90,000 and joint filers with a MAGI between \$160,000 and \$180,000.
- Your child must attend an eligible educational institution as defined by the IRS (generally, any post-secondary school that offers a degree program and is eligible to participate in federal aid programs qualifies).
- Your child must attend college on at least a half-time basis.
- Your child can't have a felony conviction.
- You must claim your child as a dependent on your tax return. If your child has paid the tuition expenses, you can still take the credit as long as you claim your child as a dependent on your return. But if your child has paid the tuition expenses and isn't claimed as a dependent on your return, your child can take the credit on his or her own return.

The American Opportunity credit can be taken for more than one student in the same year, provided each student qualifies independently. So, if you have twins who are in their freshman year of college (and you otherwise meet the requirements), your credit would be worth \$5,000.

However, there are other restrictions. You can't take both the American Opportunity credit and the Lifetime Learning credit in the same year for the same student. And whatever education expenses you cover with a tax-free distribution from your 529 plan or Coverdell education savings account can't be the same expenses you use to qualify for the American Opportunity credit.



Lifetime Learning credit

The Lifetime Learning credit is a tax credit for the qualified education expenses that you, your spouse, or your child incur for courses taken to improve or acquire job skills (even courses related to sports, games, or hobbies qualify if they meet this requirement!). The Lifetime Learning credit is less restrictive than the American Opportunity credit. In addition to college expenses, the Lifetime Learning credit covers the tuition expenses of graduate students and students enrolled less than half-time.

The Lifetime Learning credit is generally worth a maximum of \$2,000. It's calculated as 20% of the first \$10,000 of tuition and related expenses that you've paid for the year.

One major difference between the American Opportunity credit and the Lifetime Learning credit is that the Lifetime Learning credit is generally limited to a total of \$2,000 per tax return, regardless of the number of students in a family who may qualify in a given year. So if you have twins who are in their senior year of college, your Lifetime Learning credit would be worth \$2,000, not \$4,000.

To qualify for the maximum Lifetime Learning credit in 2020, your MAGI must be below \$58,000 if you're a single filer and \$118,000 if you're a joint filer. A partial credit is available for single filers with a MAGI between \$59,000 and \$69,000 and joint filers with a MAGI between \$118,000 and \$138,000.

As with the American Opportunity credit, if you withdraw money from your 529 plan or Coverdell ESA in the same year that you claim the Lifetime Learning credit, your withdrawal cannot cover the same expenses that you use to qualify for the Lifetime Learning credit.

How do I know which credit to take?

The American Opportunity credit and the Lifetime Learning credit cannot be claimed in the same year for the same student, so you'll need to pick one. Because the American Opportunity tax credit is available for all four years of undergraduate education, is worth more (\$2,500 vs. \$2,000), and the income limits to qualify are higher, that credit will probably be your first choice. But if your child is attending school less than half-time, the Lifetime Learning credit will be your only option (assuming you meet the income limits).

How do I claim either credit on my tax return?

Every year that you pay college tuition you should receive Form 1098-T from the college, showing the tuition expenses you've paid for the year. Then, at tax time, you must file Form 8863 to take either credit. If you are married, you must file a joint return to take either credit. For more information, see IRS Publication 970 or consult a tax professional.



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