Getting Credit: Tax Credits
Increase Education Affordability

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Elk County Extension Director
Disclaimer

• Today’s discussion including tax credit types, amounts and income thresholds are current as of today. Future congressional actions and IRS rulings may invalidate some or all of the information presented.
Objectives

Participants will:

• Learn about IRS resources regarding impact of education expenses on federal taxes
• Learn about 3 education deductions and 3 education credits
• Consider integrating knowledge of education tax benefits into work with adult students
Goals

• Assist you in understanding various tax benefits available to adult learners to make education more affordable.

• Increase student retention numbers – decrease attrition rates attributed to financial difficulties.
Tax Benefits for Education

For use in preparing 2009 Returns

Get forms and other information faster and easier by:
FAFSA
Free Application for Federal Student Aid

• Filing Deadline March 1 vs. tax filing deadline of April 15
• Use last year’s data and make updates after taxes are filed.
• Save money and time by filing income taxes with accurate information
Taxation

• We pay taxes for a variety of reasons
• Taxes are imposed to generate revenue
• To discourage certain behaviors
• To encourage certain behaviors
Filing Status – IRS Definitions

• Single
• Head of Household
• Married Filing Jointly
• Married Filing Separately*
• Qualifying Widow(er) with Dependent Child
Taxpayer = Household

- Taxpayer
- Spouse
- Dependents (IRS definition)
  - Determined by relationship, age, support, residence
Deduction and Credit Eligibility

- Type of education
- Enrollment status
Deductions vs. Credits

• A deduction reduces your taxable INCOME
• A credit reduces your TAX
  – Nonrefundable reduce tax to zero
  – Refundable credits provide money even if no taxes are due
36. **Student loan interest deduction (see page 34)**

37. **Tuition and fees deduction. Attach Form 8917**

38. **Medical expense deduction. Attach Form 8824**

Add lines 34 through 37 to your adjusted gross income.
Deductions

- Education Loan Interest
- Tuition and Fees
- Business Deductions – Work-related expenses
Deduction Education Loan Interest

• Education Loan interest – interest paid on any type of loan where funds were used to further education

• Up to $2,500 interest deductible/year

<table>
<thead>
<tr>
<th>FILING STATUS</th>
<th>AGI PHASE-OUT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried</td>
<td>$60-$75,000</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$120-$150,000</td>
</tr>
</tbody>
</table>
Deduction: Tuition and Fees

Qualified Higher Education Expenses
Eligible Educational Institution
No double benefit allowed

<table>
<thead>
<tr>
<th>Maximum Deduction</th>
<th>$4,000</th>
<th>$2,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried AGI cutoff</td>
<td>$65,000</td>
<td>$80,000</td>
</tr>
<tr>
<td>Married Filing Jointly cutoff</td>
<td>$130,000</td>
<td>$160,000</td>
</tr>
</tbody>
</table>
Deduction: Business Deduction
Work-related Expenses

• Must itemize deductions (ed. expenses that amount >2% of AGI)
• Employee or self-employed
• Mileage at $.55/mile to and from school
• Education required to keep your present job, serves business purpose of employer, doesn’t qualify you for new trade or business.
Credits

- Hope Scholarship
- American Opportunity
- Lifetime Learning
Hope Scholarship Credit

• Nonrefundable
• First two years of post-secondary education, at least 12 credits
• Calculated per student
• Expanded for 2009-2010 to the American Opportunity Credit
• Maximum value of $1,800
American Opportunity Credit

• Per student – enrolled at least half time
• First four years of post-secondary education
• 100% up to $2,000 of qualified expenses incl. books, supplies, materials
• 25% on next $2,000
• Phase-out
  – Single $80-$90,000
  – MFJ $160-$180,000
• Up to $1,000 is refundable
Lifetime Learning Credit

- Per household
- Defines education more broadly
- 20% credit up to $10,000 expenses
- Non-refundable
- Phase outs

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$50-$60,000</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$100-$120,000</td>
</tr>
</tbody>
</table>
Employer Provided Benefit

• Benefits up to $5,250 excludable from taxable income
• Can’t use tax-free education expenses paid by employer to claim tax deductions or credits
U.S. Savings Bonds

- EE and I bonds Interest is tax-free
  - Purchased after 1989
  - Purchaser aged 24 or older
  - Redeemed same year as education expenses incurred

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$70,100-$85,100</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$105,300-$135,100</td>
</tr>
</tbody>
</table>
Coverdell Education Savings Account

• $2,000 annual contribution per beneficiary non-deductible BUT interest / growth is tax-free
• Established beneficiary younger than 18 spent by age 30
• Transferable to family members
• Allowable tuition, fees, room and board

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<tr>
<th>FILING STATUS</th>
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<tbody>
<tr>
<td>Single</td>
<td>$95-$110,000</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$190-$220,000</td>
</tr>
</tbody>
</table>
Section 529 Plans
Qualified Tuition Program (QTP)

- Contributions $13,000 per PA taxpayer/year deductible from state income but not federal
- Growth/interest tax-free if used for qualified education expenses.
- Transferrable to family members
Federal vs. State Education Tax Benefits

• Contributions to Section 529
  – Contributions and growth state tax free
  – Growth federally tax free

• Contributions to Coverdell Education Savings
  – Growth federally tax free
Coordinating Tax benefits

- NO double dip
- Excess withdrawals beyond allowable education expenses from tax-preferred accounts can result in taxation
Alternative Funding Sources

• 401K or 403B
• Traditional IRA
• Roth IRA
• Home Equity (loan or line of credit)
# 2009 Education Tax Benefit Highlights

<table>
<thead>
<tr>
<th>What is your benefit?</th>
<th>Scholarships, Fellowships, Grants, and Tuition Reductions</th>
<th>American Opportunity Credit</th>
<th>Hope Credit</th>
<th>Lifetime Learning Credit</th>
<th>Student Loan Interest Deduction</th>
<th>Tuition and Fees Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts received may not be taxable</td>
<td>40% of credit may be refundable (limited to $1,000)</td>
<td>Credits can reduce amount of tax you must pay</td>
<td>$1,800 credit ($3,600 if a student in a Midwestern disaster area) per student</td>
<td>$2,000 credit ($4,000 if a student in a Midwestern disaster area) per tax return</td>
<td>Can deduct interest paid</td>
<td>Can deduct expenses</td>
</tr>
</tbody>
</table>

| What is the annual limit? | None | $2,500 | $2,500 deduction | $4,000 deduction |

| What expenses qualify besides tuition and required enrollment fees? | Course-related expenses such as fees, books, supplies, and equipment | Course-related books, supplies, and equipment | None (but see Students in Midwestern disaster areas under Qualified Education Expenses in chapter 3 for an exception) | None (but see Students in Midwestern disaster areas under Qualified Education Expenses in chapter 4 for an exception) | Books, Supplies, Equipment, Room & board, Transportation, Other necessary expenses | None (but see Students in Midwestern disaster areas under Qualified Education Expenses in chapter 7 for an exception) |

<table>
<thead>
<tr>
<th>What education qualifies?</th>
<th>Undergraduate &amp; graduate</th>
<th>1st 4 years of undergraduate (postsecondary)</th>
<th>Undergraduate &amp; graduate</th>
<th>Undergraduate &amp; graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>K–12</td>
<td>1st 2 years of undergraduate (postsecondary)</td>
<td>Undergraduate &amp; graduate Courses to acquire or improve job skills</td>
<td>Undergraduate &amp; graduate</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>What are some of the other conditions that apply?</th>
<th>Must be in degree or vocational program</th>
<th>Can be claimed for only 4 tax years (which includes years Hope credit claimed)</th>
<th>Can be claimed for only 2 tax years</th>
<th>Must have been at least half-time student in degree program</th>
<th>Cannot claim both deduction &amp; education credit for same student in same year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of tuition and required fees must be allowed under the grant</td>
<td>Must be enrolled at least half-time in degree program</td>
<td>Must be enrolled at least half-time in degree program</td>
<td>Must claim the credit for at least one eligible Midwestern disaster area student</td>
<td>Cannot claim American opportunity credit on same return</td>
<td>Cannot claim American opportunity credit on same return</td>
</tr>
<tr>
<td>No felony drug conviction(s)</td>
<td>Cannot claim Hope credit on same return</td>
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</tbody>
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<tr>
<th>In what income range do benefits phase out?</th>
<th>No phaseout</th>
<th>$50,000 – $60,000</th>
<th>$60,000 – $70,000</th>
<th>$60,000 – $70,000 for joint returns</th>
<th>$65,000 – $75,000 for joint returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80,000 – $90,000</td>
<td>$100,000 – $120,000 for joint returns</td>
<td>$120,000 – $150,000 for joint returns</td>
<td>$130,000 – $150,000 for joint returns</td>
<td>$150,000 – $160,000 for joint returns</td>
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# 2009 Education Tax Benefit Highlights

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<th>What is your benefit?</th>
<th>Coverdell ESA*</th>
<th>Qualified Tuition Program (QTP)*</th>
<th>Education Exception to Additional Tax on Early IRA Distributions†</th>
<th>Education Savings Bond Program‡</th>
<th>Employer-Provided Educational Assistance§</th>
<th>Business Deduction for Work-Related Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the annual limit?</td>
<td>Earnings not taxed</td>
<td>Earnings not taxed</td>
<td>No 10% additional tax on early distribution</td>
<td>Interest not taxed</td>
<td>Employer benefits not taxed</td>
<td>Can deduct expenses</td>
</tr>
<tr>
<td>Books</td>
<td>Supplies</td>
<td>Equipment</td>
<td>Expenses for special needs services</td>
<td>Payments to QTP</td>
<td>Higher education: Room &amp; board if at least half-time student</td>
<td>Elementary (K-12) education: Tutoring, Room &amp; board, Uniforms, Transportation, Computer access, Supplementary expenses</td>
</tr>
<tr>
<td>What education qualifies?</td>
<td>Undergraduate &amp; graduate</td>
<td>Undergraduate &amp; graduate</td>
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<td>Undergraduate &amp; graduate</td>
<td>Undergraduate &amp; graduate</td>
<td>Required by employer or law to keep present job, salary, status, maintain or improve job skills</td>
</tr>
<tr>
<td>What are some of the other conditions that apply?</td>
<td>Assets must be distributed at age 30 unless special needs beneficiary</td>
<td>No other conditions</td>
<td>No other conditions</td>
<td>Applies only to qualified series EE bonds issued after 2009 or series I bonds</td>
<td>No other conditions</td>
<td>Cannot be to meet minimum educational requirements of present trade/business</td>
</tr>
<tr>
<td>What is the phase-out range?</td>
<td>$95,000 - $110,000</td>
<td>No phaseout</td>
<td>No phaseout</td>
<td>$69,950 - $84,950</td>
<td>No phaseout</td>
<td>May be subject to limit on itemized deductions</td>
</tr>
</tbody>
</table>

* Any nontaxable distribution is limited to the amount that does not exceed qualified education expenses.
Review

• Filing status impacts phase outs for various deductions and credits
• Dependent status impacts who can claim credits
• Rules change annually (or as new legislation/rules are made)
• Resources: IRS publication 970
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