

2019 Higher Education Tax Credits

Two income tax credits exist that allow the taxpayer (student or parent) to turn a portion of their higher education expenses paid into tax savings. They are the American Opportunity Credit and the Lifetime Learning Credit. ***This handout is provided for informational purposes only and does not replace the advice of an income tax professional.***

What is a tax credit? A tax credit is a dollar for dollar reduction of the taxes owed.

Example – Assume a taxpayer has \$80,000 of taxable income and pays 20% in taxes. The difference between a \$2,000 tax deduction and \$2,000 tax credit follows:

Before Any Deduction or Credits

Taxable income \$ 80,000

Income taxes owed (20%) \$16,000

After \$2,000 Deduction

Income before deduction \$80,000
Less: Deduction 2,000
Taxable income \$78,000

Income taxes owed (20%) \$15,600

After \$2,000 Credit

Taxable income \$80,000
Income taxes (20%) \$16,000
Less: Tax credit 2,000
Income taxes owed \$14,000

As you can see, a \$2,000 deduction will only decrease taxes owed by \$400 (\$16,000 - \$15,600), for a taxpayer that pays a tax rate of 20%. A \$2,000 tax credit, on the other hand, will decrease the taxes owed by \$2,000 (\$16,000 - \$14,000). A tax credit is superior to a tax deduction.

What is the American Opportunity Tax Credit? The American Opportunity Tax Credit is available for qualified education expenses paid for the first four years of a post-high school education. Eligible students will receive a tax credit covering 100% of the first \$2,000 and 25% of the next \$2,000 paid for qualified expenses. **The maximum allowable credit is \$2,500.**

Example - During 2019, a student enrolls in 30 credit hours at a total cost of \$3,000. This student would be entitled to a credit of \$2,250 (100% of the first \$2,000 and 25% of the next \$1,000).

Does the American Opportunity Tax Credit include books? Books are included as a qualified expense for this education tax credit. Save your receipts.

More info? www.irs.gov (Previous IRS numbers: Form 8863 or Publication 970)

Is there an income limit for the American Opportunity Tax Credit? Yes. As with most deductions and credits, the American Opportunity Tax Credit is not available to all taxpayers. The ***full amount*** of the credit is only available to married taxpayers, filing jointly, with adjusted gross incomes (AGI) that are less than \$160,000 in 2019. For single taxpayers, AGI must be less than \$80,000. If your status is married, filing separately, the credit may not be available. Generally speaking, AGI is your income after subtracting retirement contributions such as 401ks, but not Roth IRAs.

What are the eligibility requirements for the student? A student is eligible for the American Opportunity Tax Credit if: (1) for at least one academic period (e.g. semester, trimester, quarter) beginning during the calendar year, the student is enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential and is enrolled in one of the first two years of postsecondary education, and (2) the student is free of any conviction for a Federal or State felony offense consisting of the possession or distribution of a controlled substance. (Aside: Maricopa Community College District's definition of a full-time student is any student enrolled in at least twelve credit hours.)

What if the student is a fifth year senior or part-time student? The American Opportunity credit may only be claimed if the student has not completed the first four years of college coursework at the beginning of the tax year. After taking this credit for the first four years of college, neither the parents nor student may claim an American Opportunity Credit. At this point, there is a Lifetime Learning Credit (see below) that is available. However, it is not as generous as the American Opportunity Credit.

Can the American Opportunity Tax Credit be claimed for tuition paid in advance of when the academic period begins? Generally, the credit is available only in the same calendar year as the payment is made. A credit card payment is the same as a cash payment. (Aside: If you paid for your Spring 2019 tuition during January of 2019, your Fall 2019 tuition in 2019, and your Spring 2020 tuition by December 31, 2019 – all three amounts would be eligible for the credit in 2019, provided you do not exceed the \$4,000 maximum paid.)

What is the Lifetime Learning Credit? The Lifetime Learning Credit is to help cover college expenses after the first four years. It's also intended to help workers return to school to upgrade their job skills or to retrain for a new career. Only one of the two credits (American Opportunity or Lifetime) may be claimed in any given year. For 2019, the credit amount is equal to 20 percent of the taxpayer's first \$10,000 of out-of-pocket qualified expenses (maximum credit of \$2,000). In other words, if two or more students on the same taxpayer's return use the Lifetime credit, the maximum credit is still \$2,000. The Lifetime Learning, unlike the American Opportunity Credit, is available to students taking only one class and may be taken every year. Graduate students may take this credit.

Important Note: Both Credits (American Opportunity and Lifetime Learning) are available, to those that qualify, for any out-of-pocket qualified education expenses. If your expenses are paid by scholarship, grants, the military or your employer, you did not pay for it out of your pocket and are therefore ineligible for the Credits.