

2008 Federal Education Tax Benefits Guide

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What's New for 2008

Hope and Lifetime Learning Credits: For 2008, the amount of a Hope or Lifetime Learning Credit is phased out (gradually reduced) for those with a modified adjusted gross income (AGI) between \$48,000 and \$58,000 (\$96,000 and \$116,000 for joint returns). Those with a modified AGI of \$58,000 or more (\$116,000 for joint returns) cannot claim Hope or Lifetime Learning Credits.

Hope Credit: Beginning in 2008, the amount of the Hope credit (per eligible student) is the sum of:

1. 100% of the first \$1,200 (\$2,400 for students in a Midwestern disaster area) of qualified education expenses paid for the eligible student, and
2. 50% of the next \$1,200 (\$2,400 for students in a Midwestern disaster area) of qualified education expenses paid for that student.

The maximum amount of Hope credit in 2008 is \$1,800 per student (\$3,600 for students in Midwestern disaster areas).

Tuition and Fees Tax Deduction: Congress extended this tax benefit until Dec. 31, 2009 as part of the \$700 billion economic stimulus package.

Lifetime Learning Credit:

- For 2008, students in a Midwestern disaster are eligible for up to \$4,000 - other students are eligible for up to \$2,000
- The definition of qualified education expenses is expanded for Students in Midwestern disaster areas to include books, supplies, room and board, and additional expenses for special need students.

The Hope Scholarship Tax Credit

What's New for 2008

Income limits increased. The amount of a Hope Scholarship Tax Credit for 2008 is gradually reduced (phased out) for those with modified adjusted gross incomes (AGI) between \$48,000 and \$58,000 (\$96,000 and \$116,000 for joint returns). Those with a modified AGI of \$58,000 or more (\$116,000 for joint returns) cannot claim a Hope credit. This is a \$1,000 increase (\$2,000 increase for joint returns) from the 2007 limits of \$47,000 and \$57,000 (\$94,000 and \$114,000 for joint returns).

Beginning in 2008, the amount of the Hope credit (per eligible student) is the sum of:

1. 100% of the first \$1,200 (compared to \$1,100 in 2007) of qualified education expenses paid for the eligible student (\$2,400 for students in a Midwestern disaster area), and
2. 50% of the next \$1,200 (compared to \$1,100 in 2007) of qualified education expenses paid for that student (\$2,400 for students in a Midwestern disaster area).

The maximum Hope credit increased \$150 in 2008 to \$1,800 per student (\$3,600 for students in Midwestern disaster areas) - up from \$1,650 in 2007.

What Is It?

The Hope Learning credit is a nonrefundable tax credit, not a scholarship or tax deduction. Tax credits are subtracted directly from the tax a family or student owes, while tax deductions are subtracted from taxable income. To receive the Hope tax credit, a family or student must file a federal tax return and **owe taxes**. Families and students that don't pay taxes cannot receive money from the Hope credit. If a family or student owes less in taxes than the amount of Hope tax credit they are eligible for, they can only receive a credit equal to the amount of taxes owed.

For the 2008 tax year, a family or student can claim up to \$1,800 (\$3,600 for students in a Midwestern disaster area) for each eligible student for up to two tax years (100% of the first \$1,200 (\$2,400 for students in a Midwestern disaster area) and 50% of the second \$1,200 (\$2,400 for students in a Midwestern disaster area) paid for qualified expenses). The Hope credit is only available until each student's first two years of postsecondary education are complete.

The exact amount of the Hope credit also depends on a family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. The total credit is also based on how many eligible students are in a family. This differs from the Lifetime Learning Credit which sets a maximum dollar amount for a family.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope credit. The taxpayer must also 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.) In 2008, taxpayers cannot claim a Hope credit if their modified adjusted gross income (AGI) is \$58,000 or more for a single taxpayer (\$116,000 or more for those filing a joint return). The Hope credit amount is reduced gradually for families with incomes between \$48,000 and \$58,000 (\$96,000 and \$116,000 for joint returns). AGI limits were increased by \$1,000 for single taxpayers (\$2,000 for those filing jointly) in the 2008 tax year.

The Student: An eligible student must be enrolled at least half-time for at least one academic period beginning in 2008 at an eligible program leading to a degree or certificate at an eligible school **AND** can not have completed the first two years of undergraduate study. You may claim the credit yourself if you are not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student may also be the eligible taxpayer.) Students convicted of a federal or state drug felony before the end of 2008 are not eligible for the Hope credit.

How Do You Get It?

To apply for the credit, taxpayers must report the amount of qualified tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay tuition and fees in 2008. Schools are required to send this information to each taxpayer and to the IRS by Jan. 31, 2009, in the form of a **1098-T statement**. Taxpayers use this information and their own records about tuition and fees paid when they fill out **IRS form 8863** to claim the tax credit. The statement sent by the school will also include contact information for someone at the school who can answer questions about the information on the form. A taxpayer may wish to talk to a tax advisor for help in calculating the amount of the credit.

When Is It Available?

Generally, the credit is allowed for qualified education expenses paid in 2008 for an academic period that begins in 2008 or during the first three months of 2009 (e.g., paying in December 2008 for an academic period beginning in the first three months of 2009).

Can A Family Claim Multiple Benefits?

A family may 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.

The Lifetime Learning Tax Credit

What's New for 2008

Income limits increased. The amount of a Lifetime Learning Tax Credit for 2008 is gradually reduced (phased out) for those with modified adjusted gross incomes (AGI) between \$48,000 and \$58,000 (\$96,000 and \$116,000 for joint returns). Those with a modified AGI of \$58,000 or more (\$116,000 for joint returns) cannot claim a Hope credit. This is a \$1,000 increase (\$2,000 increase for joint returns) from the 2007 limits of \$47,000 and \$57,000 (\$94,000 and \$114,000 for joint returns).

Increased credit for Midwestern students: For 2008, students in a Midwestern disaster areas are can receive 40% of the first \$10,000 of qualified educational expenses or as much as \$4,000.

More qualified expenses for Midwestern students: The definition of qualified education expenses is expanded for Students in Midwestern disaster areas to include books, supplies, room and board, and additional expenses for special need students.

What Is It?

The Lifetime Learning Credit is a nonrefundable tax credit available to individuals who file a tax return and owe taxes. The amount of the credit is subtracted from the taxes owed, rather than reducing taxable income as with a tax deduction. Individuals who do not pay taxes are not eligible for a Lifetime Learning credit. If a taxpayer owes less in taxes than the amount of Lifetime Learning tax credit they are eligible for, they are only eligible for a credit equal to the amount of taxes they owe.

A family may 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 credit is 20% of the first \$10,000 of qualified educational 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 taken to acquire or improve job skills, unlike the Hope credit which is only available for two years.

The actual amount of the credit depends on a family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. This credit is family-based (up to \$2,000 per tax return), unlike the Hope credit which is based on the number of eligible dependents in a family.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a tax return and owe taxes to claim the credit. 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 may also be the eligible student.) In 2008, those with a modified Adjusted Gross Income (AGI) of \$58,000 or more (if single), or \$116,000 or more (for married taxpayers filing a joint return) cannot claim a Lifetime Learning Credit. AGI limits were increased by \$1,000 for single taxpayers and \$2,000 married taxpayers for the 2008 tax year. The Lifetime Learning Tax Credit amount is reduced gradually for families with incomes between \$48,000 and \$58,000 if single, or \$96,000 and \$116,000 if married and filing jointly. Taxpayers that claim the Hope credit or tuition and fees deduction for a student are not eligible to claim the Lifetime Learning credit for the same student.

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

How Do You Get It?

To apply for the credit, the taxpayer must report the amount of qualified tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. Schools must send this information to taxpayers and to the IRS by January 31, 2009, in the form of a **1098-T statement**. Taxpayers will use this information and their own records about tuition and fees paid when they fill out the **IRS Form 8863** to claim the tax credit. The statement sent by the school

will also include contact information for someone at the school who can answer questions about the information on the form. A taxpayer may wish to talk to a tax advisor for help in calculating the amount of its credit.

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 2008 semester that begins in January 2009, that \$1,500 can be used to figure the 2008 deduction.

Can A Family Claim Multiple Benefits?

A family may 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.

Additional Benefits for Students in Midwestern Disaster Areas

Students in Midwestern disaster areas receive 40% of the first \$10,000 in qualified expenses paid - up to \$4,000.

The definition of qualified education expenses is expanded to include:

- Books, supplies and equipment needed to enroll and attend.
- Any expenses required by students with special needs to enroll and attend.
- Reasonable room and board costs for students attending at least half-time - the reasonable costs are determined by:
 1. the allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement; **or**
 2. the actual amount charged if the student is residing in housing owned or operated by the eligible institution.

You can get the qualified room and board costs from the institution you attend.

Understanding the Tuition and Fees Tax Deduction

What's New for 2008

Tuition and Fees Tax Deduction Extended. This tax deduction was set to expire in 2008, but Congress extended this benefit until Dec. 31, 2009 as part of the \$700 billion economic stimulus package.

What Is It?

The Tuition and Fees Tax Deduction can reduce taxable income by as much as \$4,000 for 2008. This deduction may benefit taxpayers who do not qualify for either the Hope or Lifetime Learning Education Tax Credits. It is taken as an adjustment to income, which means you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Up to \$4,000 may be deducted from tuition and fees required for enrollment or attendance at an eligible postsecondary institution. Personal living and family expenses, including room and board, insurance, medical, and transportation, are **not** deductible expenses.

The exact amount of the Tuition and Fees Tax Deduction depends on the amount of qualified tuition and related expenses paid for eligible students.

Who Qualifies?

The Taxpayer: An eligible taxpayer must file a federal tax return to claim the Tuition and Fees Tax Deduction. The taxpayer must also claim an eligible student (an individual enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return. The deduction may also be for the taxpayer or the taxpayer's spouse.

The amount of qualified education expenses that can be deducted through the Tuition and Fees Deduction remained level for the 2008 tax year at \$4,000 for taxpayers with a modified adjusted gross income (AGI) of \$65,000 or less (\$130,000 or less for married couples filing jointly). The maximum Tuition and Fees Deduction is \$2,000 for taxpayers with a modified AGI greater than \$65,000 (\$130,000 for married couples filing jointly), but not greater than \$80,000 (\$160,000 for married couples filing jointly). Taxpayers with a modified AGI greater than \$80,000 (\$160,000 for married couples filing jointly) are not eligible for this deduction.

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." Colleges can provide information on whether they meet this requirement. Students may claim this deduction for themselves if they are not claimed as a dependent by another taxpayer.

How Do You Get It?

An eligible institution that received payment for tuition and fees in the 2008 tax year must issue IRS Form 1098-T (the Tuition Statement) to each student by January 31, 2009. The information on that form will help taxpayers determine whether they can claim a deduction for 2008. An institution may choose to report payments received (box 1), or amounts billed (box 2) for qualified education expenses. However, the amount in boxes 1 and 2 may be different than what you actually paid. Only use the amounts you paid in 2008 for qualified education expenses.

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 2008 semester that begins in January 2009, that \$1,500 can be used to figure the 2008 deduction.

Can A Family Claim Multiple Benefits?

Taxpayers may 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, if a different student is used for each deduction, credit, or exclusion AND the family does not exceed the Lifetime Learning maximum per family.

Taxpayers cannot take the Tuition and Fees Tax Deduction if they deduct tuition and fees expenses under any other provision of the law (for example, as a business expense).

This deduction cannot be claimed if the tuition and fees were paid with tax-free scholarships, grants (including Federal Pell Grants), or other educational assistance including employer-provided education assistance and other non-taxable benefits received to pay for education expenses.