



Higher Education Tax Benefits

Expanded taxpayer savings



Students and parents who paid college expenses during 2009 may qualify for higher education deductions or credits when they file their federal income tax returns. As you prepare your 2009 federal income tax return, check to see if you qualify for savings under these tax law provisions.



You cannot claim both the American Opportunity Tax Credit and Lifetime Learning Credit for the same student for the same year.

Lifetime Learning Credit

Benefit. You may be able to reduce your federal income tax by as much as \$2,000 for qualified tuition and related expenses paid for students enrolled in an eligible postsecondary institution. The maximum credit equals 20 percent of the first \$10,000 of qualified expenses.

Income limits. You may qualify for a partial credit if your modified adjusted gross income is \$50,000 or more, but less than \$60,000 (\$100,000 or more, but less than \$120,000, for married couples filing a joint return).

Other information. The Lifetime Learning Credit is available for any year of education beyond high school, including vocational, college, graduate and professional education. The student does not need to be pursuing a degree or certificate to qualify, and the credit is available for students taking one or more courses. You cannot claim both the American Opportunity Tax Credit and Lifetime Learning Credit for the same student for the same year.



Credit or Deduction?

If you qualify, a tax credit generally is more beneficial than a deduction. A credit directly reduces the tax that you owe. A deduction reduces the amount of your income that is taxable. To determine the value of a deduction, multiply the amount of the deduction by your tax rate.

Deduction for higher education expenses

Benefit. You may be able to reduce your taxable income by up to \$4,000 for qualified higher education expenses that you paid during the tax year.

Income limits. You may qualify for this deduction if you are a single taxpayer with a modified adjusted gross income of \$65,000 or less, or married with modified adjusted gross income of \$130,000 or less, and you file a joint return with your spouse. If your income exceeds the limit for the full deduction, you may qualify for a deduction of up to \$2,000 if you are a single taxpayer with a modified adjusted gross income of up to \$80,000 or a married taxpayer with a modified adjusted gross income of up to \$160,000 and filing jointly.

Other information. In general, higher education expenses that qualify for the deduction are tuition and fees paid for you or your spouse or dependent. You may include student activity fees and fees for course books, supplies and equipment if you were required to pay those fees to the institution in order to attend. Room and board is not an eligible expense, however.

You may not claim this deduction and higher education tax credits — such as American Opportunity or

Lifetime Learning credits — for the same student in the same year. You can claim this deduction even if you don't itemize deductions.

Employer-provided education benefits

Benefit. You may be able to exclude from your taxable income up to \$5,250 in higher education assistance provided by your employer each year.

Other information. Undergraduate and graduate education assistance qualify for this tax benefit. Eligible employer-provided education benefits include payments for tuition, fees, books, supplies and equipment.

529 college savings plans

Benefit. You may be able to exclude from your taxable income earnings from qualified tuition programs, commonly known as 529 savings plans, that you used to pay qualified education expenses. These plans permit you to prepay or invest to pay higher education expenses.

Other information. To qualify for this benefit, you must have used the proceeds of a 529 plan distribution for tuition, fees, books, supplies and equipment at a qualified higher education institution, as well as the purchase of computer hardware and software and Internet access for use during the student's enrollment. In the case of room and board costs, check with the educational institution to determine the amount considered "reasonable" for that school for the deduction.

Coverdell Education Savings Accounts

Benefit. You may contribute up to \$2,000 annually to a Coverdell Education Savings Account, formerly known as education IRAs, on behalf of a designated beneficiary who is younger than age 18 or is a

special-needs beneficiary, to pay qualified education expenses. Although these contributions are not tax-deductible, they will grow tax-free until withdrawn.

Income limits. If you're single, and your modified adjusted gross income is \$95,000 or less — or married and filing jointly with a modified adjusted gross income of \$190,000 or less — you can contribute the maximum amount. If you're single and your modified adjusted gross income is greater than \$95,000 but less than \$110,000 — or married and filing jointly with a modified adjusted gross income of greater than \$190,000 but less than \$220,000 — you may make a reduced contribution.

Other information. Proceeds of Coverdell accounts may be used to pay certain elementary and secondary education expenses, as well as expenses for postsecondary studies. Contributions to Coverdell accounts and 529 plans are permitted for the same beneficiary in the same year. You may take a tax-free distribution from a Coverdell account in the same year that you claim a Hope or Lifetime Learning credit, as long as you don't use your Coverdell account distribution for the same expenses for which you claimed the credit.

Important notice: Please note that the information in this brochure is intended as a general summary of these tax benefits. To determine your eligibility for any of these benefits, you should consult a qualified tax adviser or the Internal Revenue Service, on the Web at www.irs.gov, or by calling (800) 829-1040. For additional information, order IRS Publication 970, "Tax Benefits for Education."

Student loan interest deduction

Benefit. You may be able to reduce your taxable income by up to \$2,500 for interest paid during the tax year on your student loans.

Income limits. If your modified adjusted gross income is less than \$60,000 — less than \$120,000 if you are married and filing jointly — you qualify for the full deduction. If you are a single taxpayer with a modified adjusted gross income of \$60,000 or more, but less than \$75,000, you can take a partial deduction. Married taxpayers with modified adjusted gross incomes of \$120,000 or more, but less than \$150,000, may qualify for a partial deduction if they file joint tax returns.

Other information. Deductible interest includes loan origination fees, capitalized interest and voluntary interest payments on loans taken out solely to pay qualified educational expenses for a student enrolled at least half time. Interest paid on loans from a relative or made under a qualified employer plan does not qualify for the deduction. You can claim this deduction even if you don't itemize deductions.

American Opportunity Tax Credit

Benefit. You may reduce your federal income tax by as much as \$2,500 per student for out-of-pocket tuition, fees and qualified books, supplies and equipment for each of the first four years of study toward a degree or certificate from a college or vocational school. Students must be enrolled at least half time to qualify.

Income limits. If you're single, and your modified adjusted gross income is between \$80,000 and \$90,000 — or married, filing jointly, with a modified adjusted gross income between \$160,000 and \$180,000 — you may qualify for a partial credit.

Other information. The American Opportunity tax credit is the renamed and expanded Hope tax credit. You may be able to receive up to \$1,000 through this tax credit, even if you owe no federal income taxes.

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