



Module 8: TAX BENEFITS FOR EDUCATION OVERVIEW

Special thanks to: Steve Balsam, Jeff Komarow and Tamara Kreigh for their contributions to this module.

By the end of this module you will...

- Determine who qualifies for an education credit
- Determine which credit the taxpayer can claim
- Determine if the taxpayer has scholarship/grant income or eligible expenses



Introduction to Tax Benefits for Education

Introduction to Tax Benefits for Education

- This lesson covers tax credits available to help the taxpayer offset the costs of higher education by reducing the amount of income tax.
- Education credits reduce the amount of tax due and are based on qualified education expenses that the taxpayer paid during the tax year.
- There are two different education credits:
 - American Opportunity Credit (AOC)
 - Lifetime Learning Credit (LLC)
- Only one of these two credits may be taken for a given student. Although, both maybe taken on a single return, if the return contains more than one student.
- There are general rules that apply to these credits, as well as specific rules for each credit.
- There are other benefits to look out for as well:
 - Qualified Tuition Plan 529
 - Veteran Benefits
 - Employer Benefit
- Additional Resource: [Publication 4012](#)

Introduction to Tax Benefits for Education

- There are 2 ways education expenses can affect a tax return.

- Taxable scholarship/grant income

- Scholarship/Grant/Fellowship is reported as income.

Note: Scholarship/grant income is reported on the student's return, regardless of who claims the **student**. It **must** be reported as income if it is not used for Qualified Education Expenses or the student is not a degree candidate.

- Tax credit

- American Opportunity Credit
 - Lifetime Learning Credit

Note: These credits are calculated on the return of the taxpayer who is qualified to claim the student as a dependent. Full-time Students under the age of 24 claiming themselves as a dependent and claiming the American Opportunity Credit are only entitled to the nonrefundable portion of the American Opportunity Credit (unless the parents are dead.)

Introduction to Tax Benefits for Education

- During the client intake interview, encountering any one of the following items will require further investigation:
 - Form 1098-T, Tuition Statement
 - Account statement from school



Definition of Key Terms

Eligible Institution

An eligible institution is **generally any accredited public, nonprofit, or private college, university, vocational school, or other postsecondary institution** eligible to participate in the Department of Education FAFSA student loan program.

The school should be able to tell the student if it is an eligible education institution.

A searchable database of all accredited schools is available at:

<http://ope.ed.gov/accreditation/>

Eligible student

An eligible student is the **taxpayer, spouse or a dependent** who is enrolled in one or more courses that meet the requirements of the American Opportunity Credit or the Lifetime Learning Credit as applicable. The requirements and limitations for each credit are covered later in this module.

Qualified Education Expenses

Qualified education expenses include **tuition, fees that are required for enrollment, and course materials the student was required to buy from the school.**

QEEs for the American Opportunity Credit may include required books, supplies and equipment purchased from third-parties rather than from the educational institution.

- The following are qualified education expenses **for the purposes of the American Opportunity Credit (AOC) and Lifetime Learning Credit (LLC)**:
 - Tuition and fees required to enroll at or attend an eligible educational institution.
 - Course-related expenses, such as fees, books, supplies, and equipment (can include computers) that are required for the courses at the eligible educational institution. These items must be required of all students for the course. For example, if a computer is required for a computer programming course, it would be an eligible expense. *Note: QEE are also used to determine the education credits.*
 - *Note: for the LLC, books, materials and computers must be purchased from the eligible educational institution.*
- Qualified education expenses may also include:
 - **Non-academic fees**, such as student activity fees or other expenses unrelated to the academic course **that must be paid to the institution as a condition of enrollment or attendance.**
- **Qualified Education Expenses do not include Room & Board, sporting event tickets, health insurance, transportation and parking fees.**
- *Note: Qualified Educational Expenses differ for the AOC and LLC.*

Grants and scholarships

A scholarship, grant or fellowship is tax free (excludable from gross income) **only if:**

- The student is a candidate for a degree at an eligible educational institution.

A student is considered a candidate for a degree if the student is pursuing a degree at a college or university or attends an educational institution that offers a program of training to prepare students for gainful employment in a recognized occupation and is authorized under federal or state law to provide such a program and is accredited by a nationally recognized accreditation agency.

A scholarship, grant or fellowship is tax free **only to the extent that:**

- It doesn't exceed qualified education expenses;
- It isn't designated or earmarked for other purposes (such as room and board) and doesn't require (by its terms) that it can't be used for qualified education expenses; and
- It doesn't represent payment for teaching, research, or other services required as a condition for receiving the scholarship. These payments are typically reported as W-2 or Form 1099 earnings.

Form 1098-T, Tuition Statement

Eligible colleges or other post-secondary institutions **generally send [Form 1098-T, Tuition Statement](#)** to any student who paid qualified educational expenses in the preceding tax year.

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses \$ _____	OMB No. 1545-1574 2023 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no.	STUDENT'S TIN	2	3	
STUDENT'S name		4 Adjustments made for a prior year \$ _____	5 Scholarships or grants \$ _____	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$ _____	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2024 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		8 Checked if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$ _____		

Form **1098-T** (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

Note: Universities issue 1098-T to the student. If the student is over age 18, they are considered an adult and the school cannot disclose the student's financial information to the parent without the student's permission. Although the student provides the information, it is used to prepare the parent's tax return.

The 1098-T is often not enough information to accurately calculate AOC and the student will need to provide a financial statement with an accounting of the amount paid in tuition, fees, etc. and the amount and type of scholarship or grant received.



Eligibility to Claim Education Credits

Basic Eligibility

- To claim an education credit, the following must be true for the taxpayer(s):
 - They cannot be claimed as a dependent on someone else's tax return
 - The student must be the taxpayer, spouse or the dependent of the filer – a dependent **cannot** file for the Education Credit
 - They are not filing as Married Filing Separately
 - Their adjusted gross income (AGI) is below the limitations for their filing status*
 - They were not nonresident aliens for any part of the tax year, or if they were, they elected to be treated as resident aliens

*the AGI limits are different for each of the credits

Who can claim an education credit?

Taxpayers who **paid qualified educational expenses** for higher education for an **eligible student** attending an **eligible educational institution** can claim an education credit.

- Qualified education expenses paid by a dependent, or by a third party for that dependent, are considered paid by the taxpayer who can claim that student as a dependent.
- If a student isn't claimed as a dependent (even if eligible to be claimed), only the student can claim the education credit, no matter who paid the expenses.
 - Anyone paying the expenses (even directly to the institution) is considered to have given a gift to the student who in turn is treated as having paid the expenses.



American Opportunity Credit

American Opportunity Credit (AOC)

- Student must attend an eligible institution.
- Covers qualified expenses: tuition, fees, books and supplies.
- 40% of the credit is refundable.
- Maximum credit of \$2,500 per eligible student based on \$4,000 of qualifying expenses (multiple students may qualify on the same return, but qualifying expenses are calculated individually).
- Can be claimed for only 4 tax years.
- Must be enrolled at least half-time – it is defined by the Eligible Education Institution, usually by hours. Only needs to be enrolled for at least *one* term.
- Any felony drug conviction by the student disqualifies them from claiming the credit.
- Married Filing Separately disqualifies you for the credit.
- Available ONLY if the student had not completed the first 4 years of postsecondary education before the tax year.

American Opportunity Credit (AOC)

If a student is under the age of 24 and claiming the American Opportunity Credit:

- None of the credit is refundable if:

- (1) the taxpayer claiming the credit is:

- (a) under age 18, **or**

- (b) age 18 at the end of the year, and their earned income was less than one-half of their own support, **or**

- (c) a full time student over 18 and under 24 and their earned income was less than one-half of their own support; **and**

- (2) the taxpayer has at least one living parent, **and**;

- (3) the taxpayer doesn't file a joint return

students can claim the non-refundable part (\$1,500) if they have that level of tax liability



Lifetime Learning Credit

Lifetime Learning Credit (LLC)

- Non-refundable tax credit. Covers undergrad, grad and courses to acquire or improve job skills.
- Maximum credit of \$2,000 per tax return on \$10,000 of qualified expenses.
 - Calculation is 20% of eligible expenses until limit is reached.
- Must attend an eligible institution.
- Qualified expenses include tuition and fees
 - Books only if bought from the educational institution as a condition of enrollment. For example, a nursing program or at a technical school.
 - Rarely do books qualify for LLC.
- Per return – expenses from multiple students can be combined to increase qualified expenses toward the overall \$10,000 maximum.
- Can be less than half-time student.

Decision Process

- Is AGI within Education Credit / Adjustment limits? Limits are highest for AOC and then LLC

- Does American Opportunity Credit apply? AOC is typically the best credit
 - Are there \$4000 of qualified education expenses?
 - Yes, continue.
 - No, consider declaring part of scholarship/grant as taxable to student – caution not to invoke a filing requirement or Kiddie Tax on the student. See Module 8C

- If AOC does not apply, consider Lifetime Learning credit.
 - Is there enough Tax Liability to use the credit?
 - Yes, continue
 - No, you cannot apply the Lifetime Learning Credit



Re-Cap

Re-Cap

Credit Conditions	American Opportunity Credit	Lifetime Learning Credit
Maximum credit	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying surviving spouse	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying surviving spouse
Refundable or nonrefundable	40% of credit may be refundable ¹ ; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available ONLY if the student had not completed the first 4 years of post secondary education before 2023. See Completion of first 4 years in Publication 970.	Available for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half-time ² for at least one academic period beginning during 2023 (or the first 3 months of 2024 if the qualified expenses were paid in 2023)	Available for one or more courses
Felony drug conviction	As of the end of 2023, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2023 for academic periods beginning in 2023 or beginning in the first 3 months of 2024	Payments made in 2023 for academic periods beginning in 2023 or beginning in the first 3 months of 2024
TIN needed by filing due date	Filers and students must have a TIN by the due date of their 2023 return (including extensions)	
Educational institution's EIN	You must provide the educational institution's employer identification number (EIN) on your Form 8863, Education Credits.	

Source: Tables J-8 of [Publication 4012](#)



Module 8B: ELIGIBLE EXPENSES



Determining Eligible Expenses

Determining Eligible Expenses

Reduce expenses by any scholarships or grants received.

The amount of expenses that exceed scholarships and grants can be used to calculate the credit.

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FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number State University PO Box 123 Your City, YS, XXXXX		1 Payments received for qualified tuition and related expenses \$ 9,900 2	OMB No. 1545-1574 2023 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. XX - XXXXXX	STUDENT'S TIN XXX-XX-1234	3		
STUDENT'S name Ann Harvard		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 5,360	
Street address (including apt. no.) 100 Main St		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2024 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Anywhere, US, XXXXX		8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	10 Ins. contract reimb./refund \$			

Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

Based on the Student Account Statement for Ann Harvard
 Eligible Expenses = \$9,900 - \$5,360 = \$4,540

Determining Scholarship or Grant Income – Standard Treatment

The amount of scholarships and grants that exceed education expenses is reported on the student's return as income.

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number State University PO Box 123 Your City, YS, XXXXX		1 Payments received for qualified tuition and related expenses \$ 5,000	OMB No. 1545-1574 2023 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. XX - XXXXXX	STUDENT'S TIN XXX-XX-1234	2	3	
STUDENT'S name Ann Harvard		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 9,950	
Street address (including apt. no.) 100 Main St		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2024 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code Anywhere, US, XXXXX		8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)		10 Ins. contract reimb./refund \$		

Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

Scholarship or Grant Income = \$9,950 - \$5,000 = \$4,950

Choice is Clear for Some

- The choice is clear for students with education expenses well in excess of their Pell grant or other scholarships as they won't need to include any of their grants in income in order to claim the maximum education credit
- Specifically, if Qualified Education Expenses – Scholarships \geq \$4,000, the student could exclude scholarship from income and still maximize the American Opportunity Credit education credit
- Example: In this case, the student already has education expenses of \$4,000 (\$9,000 qualified tuition less \$5,000 in grants) so there is no need to tax the scholarships.

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number State University PO Box 123 Your City, YS, XXXXX		1 Payments received for qualified tuition and related expenses \$ 9,000 2	OMB No. 1545-1574 2023 Form 1098-T	Tuition Statement Copy B For Student This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
FILER'S employer identification no. XX - XXXXXX	STUDENT'S TIN XXX-XX-1234	3		
STUDENT'S name John Smith		4 Adjustments made for a prior year \$	5 Scholarships or grants \$ 5,000	
Street address (including apt. no.) 100 Main St City or town, state or province, country, and ZIP or foreign postal code Anywhere, US, XXXXX		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2024 <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	8 Checked if at least half-time student <input checked="" type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form 1098-T (keep for your records) www.irs.gov/Form1098T Department of the Treasury - Internal Revenue Service

When Student is a Dependent

- Whenever possible, the best option is to have the parent(s) and student come in together to get their returns prepared.
- Education credit, if any, is claimed by the taxpayer who claims the dependent.
- Scholarship/grant income, if any, is reported on the **student's** tax return – it is not income of the person who claims the dependent.
- Many dependents have little or no taxable income.
- Check the student's filing requirement on Page A-2 in Pub 4012. Adding scholarship income to a dependent's return may increase the dependent's income enough to create a filing requirement or the dependent may already be required to file a return.
- If the dependent is required to file a return (see Pub 4012, Tab A) **and** the taxable scholarship income and other unearned income exceeds \$2,500, then the Form 8615 is required which will make the return **out-of-scope for 2023**.

Re-Cap

- Families may be able to increase their total refund or reduce tax liability by paying some tax on their scholarships/grants and increasing their education credit.
- In some cases, you can report scholarships as income taxable to the student to maximize education credits. Check when Education Expenses – Grants < \$4,000.
- For Pell Grants and other scholarships/grants that allow the student to use them for living expenses:
 - Check the case of claiming \$2,000 in education expenses for AOC
 - Check the case of claiming \$4,000 in education expenses for AOC
 - ... up to the amount of actual expenses if actual is less than the above tiers.
 - Apply the allocation that is most beneficial for the client.
- Taxable scholarship/grant income is reported on the student's return when the amount exceeds qualifying education expenses.
- Tax credits are reported on the tax return of the taxpayer who claims the student as a dependent. The student claims the credit if no taxpayer claims him as a dependent.
- Form 8615 is required and out-of-scope when the dependent has more than \$2,500 in unearned income (including taxable scholarship) and has a filing requirement. See Pub 4012, A-2.

Additional Resources

- [Form 8615 Information](#)
- [Education Calculator \(Colorado Tax-Aide\)](#)

Up Next...
Module 9: Finishing the Return