

Planning 2009: Education Credits and Deductions

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As a taxpayer with higher education costs, you should be aware of the many tax benefits that are available to you. Generally, educational assistance such as scholarship, fellowship, or employer-provided educational benefits are excludable from income. For education costs not covered by educational assistance, tax benefits include the Hope scholarship credit (also known as the American Opportunity credit for 2009 and 2010) and the lifetime learning credit. Alternatively, you may have the option of deducting qualified tuition and fees expenses "above the line." These credits and deductions are coordinated with the exclusion for distributions from education savings plans, such as, Coverdell Savings Accounts and qualified tuition programs. For taxpayers who take out a loan to pay for their education, a deduction is available for the student loan interest.



The amount of the American Opportunity tax credit is computed as 100 percent of the first \$2,000 of qualified tuition and related expenses plus 25 percent of the next \$2,000 of such expenses, for a total maximum credit of \$2,500. The lifetime learning credit is generally available for 20 percent of education expenses up to \$10,000. For taxpayers who do not itemize, an above-the-line higher education tuition deduction can be claimed in 2009 for up to \$4,000.

Each education credit and the deduction have adjusted-gross-income phase out limitations. In addition the education credits are coordinated with the deduction and Coverdell Savings Accounts and qualified tuition programs so that taxpayers cannot realize duplicate tax benefits for the same dollars of education costs. Because of the variety of tax benefits and the variations as to eligibility and the definition of qualifying education expense, some or all of the benefits may apply to you. Every taxpayer should review their tax plan in order to take maximum advantage of the tax savings for education.

For instance, a taxpayer generally should elect the Hope scholarship credit rather than the exclusion from income for distributions from a Coverdell ESA. However, a taxpayer may be better off electing the exclusion in situations in which the student incurs relatively lower tuition and fees and higher expenses of other kinds (such as expenses that qualify for the exclusion, but not for the credits). Also, because the credits are phased out when a taxpayer's modified adjusted gross income exceeds a specific level, it may be more advantageous to forego the exemption for a dependent student and have the student claim the education credit on their own return.

Determining the best alternative for you and your dependents requires an analysis of your expected costs, resources, and income. We can advise you on the best course of action. Please contact your trusted Hawkins, Ash, Baptie representative at your earliest convenience.

