

Education Tax Benefits

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Michael S. McDonough, CPA, MST
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Agenda

- Taxable Income, Deductions and Credits
- Tuition and Fees Deduction
- Student Loan Interest Deduction
- Itemized Deduction of Education Expense
- Employer Paid Tuition
- American Opportunity Credit
- Lifetime Learning Credit
- Scholarships and Fellowships

Taxable Income, Deductions and Credits

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Taxable Income, Deductions and Credits

- All income is taxable unless specifically exempted by law.
- A tax deduction is a reduction of the income subject to tax.
- A tax credit is dollar for dollar reduction in the tax.
- Generally speaking, a dollar credit is better than a dollar deduction.

Tax Calculation

Gross Income
(Adjustments)

Adjusted Gross Income
(Deductions and exemptions)

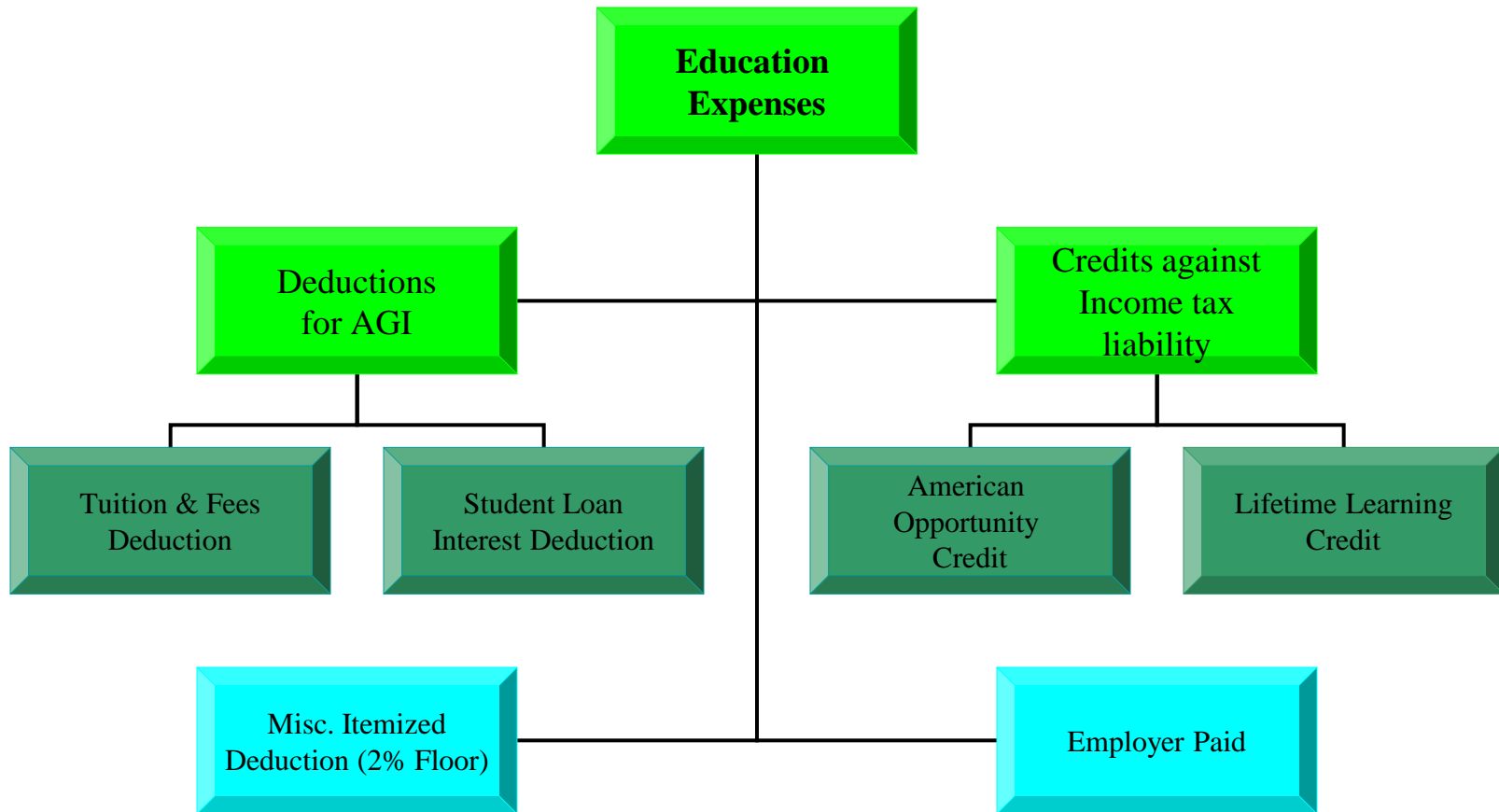
Taxable Income

Tax

(Credits)

Amount Owed or Refunded

Tax Relief for Higher Education Expenses



Tuition and Fees Deduction

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Tuition and Fees Deduction

- Considered “above the line” deduction.
- No double benefit – cannot use the same expenses for other credits/deductions.
- Credit maximum is per taxpayer not per student.
- Deduction allowed for tuition and fees only (no room/board, health fees, transportation, etc.).
- Deduction is up to \$4,000 for MAGI under \$65,000 (single) and \$130,000 (joint).
- Deduction declines to \$2,000 for MAGI up to \$80,000 (single) and \$160,000 (joint).
- Deduction is eliminated at MAGI above \$80,000 (single) and \$160,000 (joint).

Tuition and Fees Deduction

- Available for all years of post secondary school.
- Available for unlimited amount of years.
- No minimum course load requirement OR degree requirement.
- Must be attending an accredited institution according to ED.
- Available even if tuition/fees paid using funds from student loans.

Tuition and Fees Deduction

- Not available if taxpayer files separately from spouse or as non-resident alien.
- Expenses must be for taxpayer (you), your spouse, or dependent.
- Student must NOT be ELIGIBLE to be claimed as dependent by another taxpayer
- Expenses paid by a third party are considered paid by the student

Tuition and Fees Deduction

IF your dependent is an eligible student and you...	AND...	THEN...
claim an exemption for your dependent	you paid all qualified education expenses for your dependent	only you can deduct the qualified education expenses that you paid. Your dependent cannot take a deduction.
claim an exemption for your dependent	your dependent paid all qualified education expenses	no one is allowed to take a deduction.
do not claim an exemption for your dependent	you paid all qualified education expenses	no one is allowed to take a deduction.
do not claim an exemption for your dependent	your dependent paid all qualified education expenses	no one is allowed to take a deduction.

Student Loan Interest Deduction

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Student Loan Interest Deduction

- Considered “above the line” deduction.
- No double benefit—cannot use the same expenses for other credits/deductions.
- Taxpayer must have legal obligation to pay.
- Must have been enrolled at least part time in a degree or other recognized program.
- Must have been solely for education expenses including tuition, supplies and room & board.

Student Loan Interest Deduction

- Cannot be from a related party.
- Available for the life of the loan.
- Not available for Married Filing Separate Status.
- Taxpayer cannot be claimed as dependent of another taxpayer.
- Deduction is up to \$2,500 per tax return.
- Phase-out starting at MAGI \$60,000 (single) and \$125,000 (joint).
- Deduction is eliminated at MAGI above \$75,000 (single) and \$155,000 (joint).

Itemized Deduction of Education Expenses

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Itemized Deduction of Tuition

- Miscellaneous itemized deduction.
- No double benefit—cannot use the same expenses for other credits/deductions.
- Subject to 2% floor.
- Must not qualify student for new field (undergrad vs. grad school).
- IRS has a history of looking very closely at this deduction but has approved many.

Tuition and Fees Deduction

Example: Single MA taxpayer with income of \$60,000 and \$25,000 graduate school tuition

	Standard Deduction	Itemized Deduction	Notes
Adjusted Gross Income (AGI)	\$ 60,000	\$ 60,000	
Standard/itemized deduction and personal exemption	(\$5,950) (\$3,800)	(\$23,800) (\$3,800) (\$3,000)	\$ 25,000 less 2% floor (\$ 1,200) personal exemption MA state 5% income tax
Taxable Income	50,250	29,400	
Tax	\$ 8,586	\$ 3,971	

Employer Paid Tuition

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Employer Paid Tuition

- Employer may pay up to \$ 5,250 tax-free.
- No double benefit—cannot claim credits/deductions for same tuition.
- Payments above this threshold are considered wages.
- No degree requirement but must have some connection to job (i.e. - no hobby/craft).

American Opportunity Credit

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American Opportunity Credit

- Replaces HOPE Credit.
- Partially refundable.
- Is per student.
- Available for first four years ONLY of post secondary school.
- Must be at least part time pursuing a degree or other recognized credential.
- Must be attending an accredited institution according to ED.

American Opportunity Credit

- Include tuition, fees, supplies/materials/equipment if required as condition of enrollment.
- Must not have been convicted of drug felony.
- Available even if tuition/fees paid with funds from student loans.
- Not available if taxpayer files separately from spouse or as non-resident alien.
- Phase-out starting at MAGI \$80,000 (single) and \$160,000 (joint)
- Eliminated at MAGI \$ 90,000 (single) and \$ 180,000 (joint).


American Opportunity Credit

IF your dependent is an eligible student and you...	THEN...
Claim an exemption for your dependent	Only you can claim the credit. Your dependent cannot claim the credit.
Do not claim an exemption for your dependent (even if entitled to)	Only your dependent can claim the credit. You cannot claim the credit.

American Opportunity Credit Calculation

- Credit is 100% of the first \$ 2,000 paid plus 25% of the next \$2,000.
- Maximum \$ 2,500 total credit per taxpayer.
- Credit is refundable up to 40% up to a maximum of \$1,000.

Lifetime Learning Credit

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Lifetime Learning Credit

- Credit is not refundable.
- Credit is per Taxpayer no matter how many students.
- Available for all years of post secondary school with no degree requirement.
- Available for unlimited years and no minimum attendance requirement.
- Must be attending an accredited institution according to ED.
- Includes tuition, fees, supplies/materials/equipment if required as condition of enrollment.

Lifetime Learning Credit

- Available even if tuition/fees paid with funds from student loans.
- Not available if taxpayer files separately from spouse or as non-resident alien.
- Student cannot be claimed by another taxpayer.
- Tuition paid by a third party is considered paid by student.
- Phase-out starting at MAGI \$52,000 (single) and \$104,000 (joint)
- Eliminated at MAGI \$62,000 (single) and \$124,000 (joint).

Lifetime Learning Credit

IF your dependent is an eligible student and you...	THEN...
Claim an exemption for your dependent	Only you can claim the credit. Your dependent cannot claim the credit.
Do not claim an exemption for your dependent (even if entitled to)	Only your dependent can claim the credit. You cannot claim the credit.

Lifetime Learning Credit Calculation

- Credit is based on 20% of the first \$10,000 paid.
- Maximum \$ 2,000 total credit per taxpayer.

Scholarships and Fellowships

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Scholarships and Fellowships

A scholarship or fellowship is generally tax-free only if:

- You are a candidate for a degree at eligible educational institution.
- You use the scholarship or fellowship to pay qualified education expenses.
- It does not represent payment for teaching, research or other services.

Questions?