

GREAT NEWS FOR STUDENTS AND THEIR FAMILIES: Extension of Tax Credit Makes Community College Even More Affordable

Congress has extended the American Opportunity Tax Credit! This allows students or their parents to receive a tax credit of up to \$2,500 for college tuition, fees, books and related expenses incurred in 2011, based on certain income limits. For every dollar spent on these expenses, there is a corresponding dollar credit that comes directly off the taxes owed to the IRS. To be eligible, students must have taken at least six credits toward an undergraduate degree.

Families are advised to seek the advice of a tax professional, but be aware that those with an adjusted gross income of \$80,000 or less (\$160,000 for married couples) will be eligible for the full credit. The credit is phased out for taxpayers with incomes above these levels and cannot be claimed for those with an AGI greater than \$90,000 (\$180,000 for joint filers). Even families with no federal income tax liability can receive the credit.

The American Opportunity Tax Credit is claimed by submitting IRS form 8863 with the 1040 or 1040A main tax form. Prior to the tax-filing deadline, the college will send every student the 1098T form that also must be attached.

Questions and Answers from the Internal Revenue Service

How much is the American Opportunity Tax Credit worth?

It is a tax credit of up to \$2,500 of the cost of qualified tuition and related expenses paid during the taxable year.

Who is eligible for the American Opportunity Tax Credit?

A taxpayer who pays qualified tuition and related expenses and whose federal income tax return has a modified adjusted gross income of \$80,000 or less (\$160,000 or less for joint filers) is eligible for the full credit; a reduced amount is available to those earning up to \$90,000 (\$180,000 for married taxpayers).

What education expenses qualify for the American Opportunity Tax Credit?

The term refers to expenditures for course materials including books, supplies and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.

Does expenditure for a computer qualify for the American Opportunity Tax Credit?

Purchase of a computer would qualify for the credit if the computer is needed as a condition of enrollment or attendance at the educational institution.

How is the American Opportunity Tax Credit calculated?

Taxpayers will receive a tax credit based on 100% of the first \$2,000 of tuition, fees and course materials paid during the taxable year, plus 25% of the next \$2,000 of tuition, fees and course materials paid during the taxable year.

How will the American Opportunity Tax Credit affect your income tax return?

You will be able to reduce your tax liability one dollar for each dollar of credit for which you're eligible. If an individual qualifies as a lower-income taxpayer and the credit exceeds the tax bill for the year, up to 40% of the credit – or \$1,000 – will be paid directly as a refund.

How is the credit claimed?

The credit is claimed using **Form 8863**, attached to Form 1040 or 1040A.

Can the tuition and fees tax deduction be claimed in addition to the American Opportunity Tax Credit?

You cannot claim the tuition and fees tax deduction in the same year that you claim the American Opportunity Tax Credit or the lifetime learning credit. You also cannot claim the tuition and fees tax deduction if anyone else claims the American Opportunity Tax Credit or the lifetime learning credit for you in the same year. A tax deduction of up to \$4,000 can be claimed for qualified tuition and fees paid. Though the credit will usually result in greater tax savings, taxpayers should calculate the effect of both on the tax return to see which is most beneficial — the tax credit or the deduction. Often tax software will automatically compare the two for you.