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Tax Benefits for Education Expenses for year 2018

American Opportunity Credit Helps Pay for the First Four Years of College

The maximum annual credit for American Opportunity Credit for 2018 is \$2,500 per student.

Here are some key features of the credit:

- Tuition, related fees, books and other required course materials generally qualify. In the past, books usually were not eligible for education-related credits and deductions.
- The credit is equal to 100 percent of the first \$2,000 spent and 25 percent of the next \$2,000. That means the full \$2,500 credit may be available to a taxpayer who pays \$4,000 or more in qualified expenses for an eligible student.
- The full credit is available for taxpayers whose modified adjusted gross income (MAGI) is \$80,000 or less (for married couples filing a joint return, the limit is \$160,000 or less). The credit is phased out for taxpayers with incomes above these levels.
- Forty percent of the American opportunity credit is refundable. This means that even people who owe no tax can get an annual payment of the credit of up to \$1,000 for each eligible student. Existing education-related credits and deductions do not provide a benefit to people who owe no tax. The refundable portion of the credit is not available to any student whose investment income is taxed at the parent's rate, commonly referred to as the kiddie tax.
- Though most taxpayers who pay for post-secondary education will qualify for the American opportunity credit, some will not. The limitations include a married person filing a separate return, regardless of income, joint filers whose MAGI is \$180,000 or more and, finally, single taxpayers, heads of household and some widows and widowers whose MAGI is \$90,000 or more.

There are some post-secondary education expenses that do not qualify for the American opportunity credit. They include expenses paid for a student who, as of the beginning of the tax year, has already completed the first four years of college. That's because the credit is only allowed for the first four years of post-secondary education. Graduate students still qualify for the lifetime learning credit.

Lifetime Learning Credit

For the tax year, you may be able to claim a lifetime learning credit of up to \$2,000 for qualified education expenses paid for all students enrolled in eligible educational institutions. There is no limit on the number of years the lifetime learning credit can be claimed for each student.

Generally, you can claim the lifetime learning credit if all three of the following requirements are met:

- You pay qualified education expenses of higher education
- You pay the education expenses for an eligible student.
- The eligible student is yourself, your spouse, or a dependent for whom you claim an exemption on your tax return.

You cannot claim the lifetime learning credit for the tax year if any of the following apply.

- Your filing status is married filing separately.
- You are listed as a dependent in the Exemptions section on another person's tax return (such as your parents').
- You (or your spouse) were a nonresident alien for any part of the tax year and the nonresident alien did not elect to be treated as a resident alien for tax purpose.

- You cannot claim a lifetime learning credit if your modified AGI is \$67,000 or more (\$134,000 or more if you file a joint return).

For 2018, the amount of your lifetime learning credit is phased out (gradually reduced) if your modified adjusted gross income (AGI) is between \$57,000 and \$67,000 (\$114,000 and \$134,000 if you file a joint return).

If you're eligible to claim the lifetime learning credit and are also eligible to claim the American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take credits on a per-student, per-year basis. This means that, for example, you can claim the American Opportunity Credit for one student and the lifetime learning credit for another student in the same year.

Student Loan Interest Deduction

Generally, personal interest you pay, other than certain mortgage interest, is not deductible on your tax return. However, if your modified adjusted gross income (MAGI) is less than \$80,000 (\$165,000 if filing a joint return), there is a special deduction allowed for paying interest on a student loan (also known as an education loan) used for higher education. Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

For most taxpayers, MAGI is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to \$2,500.

The student loan interest deduction is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on Form 1040's Schedule A.

Tuition Tax Breaks for 2018		
	<u>American Opportunity Credit</u>	<u>Lifetime Learning Credit</u>
Maximum Amount	\$2,500 per student	\$2,000 per tax return
Qualifying Education	First four years of undergraduate	Undergraduate, graduate, job training courses
Income limits	No credit if modified AGI exceeds \$90,000 (unmarried) or \$180,000 (married joint) Phase-out applies	No credit if modified AGI exceeds \$67,000 (unmarried) or \$134,000 (married joint) Phase-out applies

This Publication provides summary information regarding the subject matter at time of printing. Please call us with any questions on how this information may impact your situation.