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Figuring out how to pay for college can be stressful, and fortunately, the ...

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This is an exciting time of the year when college bound students are starting to gear up for college. The transition can also take a physical and emotional toll on parents. Figuring out how to pay for college can be stressful, and fortunately, the government provides some nice financial incentives, especially in light of the escalating cost of education.

Being a client's trusted advisor, tax professionals can offer some worthwhile advice on tax and financial planning for a college education. We have assembled some

helpful information on the related tax benefits for you to brush up on and to educate

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a dependent.

- If your child files their own tax return and claims a personal exemption, they can claim the education tax credit or deduction.

Tuition and Fees Deduction

The Tuition and Fees Deduction allows you to deduct up to \$4,000 per year. This above-the-line deduction was extended through 2016 (and may get further extended) and can be used for qualified tuition and related expenses. In order to claim the deduction, you must earn less than \$80,000 per year as a single filer, or less than \$160,000 as married filing jointly. You cannot claim the deduction if you are married and file separately.

You can include amounts paid for tuition and required fees, for you, your spouse or your dependent child. The student must be enrolled at an eligible post-secondary educational institution. You're not allowed to deduct expenses paid for room and board or for personal purposes.

American Opportunity Credit

The American Opportunity Credit enables you to claim up to \$2,500 (per student) per year for the first four years of post-secondary education and 40% of the credit is "refundable". The credit is available only to students who have not yet completed the first four years of post-secondary education.

To qualify, the student must be participating in a program that will lead to a degree or some "other recognized educational credential". Students must be enrolled at least "half-time" for at least one academic semester during the calendar year. Allowable expenses include tuition and fees, required enrollment fees, course related books, supplies and equipment. Room and board does not qualify.

This credit can be claimed only by couples (married filing jointly only) who earn no

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up to \$65,000 for single filers, and up to \$130,000 for married filing joint filers.

Unlike the American Opportunity Credit, there is no limit on the number of years you can claim the credit. You can't claim both the American Opportunity Credit and the Lifetime Learning Credit on the same student, but you can claim the American Opportunity Credit for one student and the Lifetime Learning Credit for another in the same year. You can claim the Lifetime Learning Credit even if the student is not pursuing a program that will lead to a degree or some other recognized educational credential.

The Lifetime Learning Credit covers tuition and fees required for enrollment or attendance, amounts paid for course-related books, supplies and equipment and can be claimed for as many years as you pay expenses for higher education.

Student Loan Interest Deduction

Parents and students can take an above-the-line deduction for interest paid on a federal or private student loans up to \$2,500. To qualify, your modified adjusted gross income must be less than \$80,000 for single filers and \$160,000 for joint filers.

This deduction is available to a student who is enrolled at least half-time in a program leading to a degree, certificate or other recognized educational credential. You should receive a Form 1098-E by January 31 that will give you information on qualifying interest paid and can be deducted.

Planning Opportunity

If the parents' modified adjusted gross income is too high and they cannot take advantage of the education credits or deduction, the parents can elect to not claim an exemption for the dependent / student. The student can in turn claim one of the

tuition credits or deduction and the student loan interest deduction on his or her

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have the parent claim the dependency exemption (if not phased out) or have the student take advantage of the education tax benefits.

Closing Thoughts

Taxpayers should receive a Form 1098-T by January 31 reporting tuition and expenses paid to the educational institution. Remember to have your clients keep good records to support the deductions and credits if they need to prove them down the road. We hope that we've provided you with some valuable information to share and help guide your clients. Wish these college students and families plenty of success in the next phase of their lives. Please refer to [Tax Benefits for Education: IRS Publication 970](#) if you have questions.

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Mike D'Avolio, CPA, is senior tax analyst with the [Intuit ProConnect Group](#). He has been a small business tax expert for more than 20 years and serves as the primary liaison with the IRS for tax law interpretation matters, manages all technical tax information, and supports tax development and other groups by providing them with current tax law developments, analysis of tax legislation, and in-depth product testing.

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