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higher education expenses on their personal tax returns: the tuition deduction, the American Opportunity Tax Credit (formerly the Hope scholarship credit) or the Lifetime Le

Ken Berry • Nov. 04, 2014

[This is **part of a series of articles** designed to maximize tax benefits and minimize tax pitfalls at the end of the year.]

Prior to 2014, parents could generally claim one of three sizeable tax breaks for higher education expenses on their personal tax returns: the tuition deduction, the American Opportunity Tax Credit (formerly the Hope scholarship credit) or the Lifetime Learning Credit. As things stand now, only two of these tax breaks are available this year. But two out of three ain't bad.

For those clients who qualify, paying next semester's tuition bill before the end of the year can provide a hefty tax credit in 2014, as long as they stay below the applicable income limits. Here's the tax primer to follow:

1. Tuition deduction: Under prior law, you could deduct tuition and related fees paid to a qualified educational institution on behalf of a dependent child. The deduction was limited to either \$2,000 or \$4,000, depending on your modified adjusted gross income (MAGI). For single filers, the deduction was \$2,000 for a MAGI up to \$65,000 and \$2,000 for MAGI between \$65,000 and \$80,000. Joint filers could deduct \$2,000 for a MAGI up to \$130,000 and \$2,000 for MAGI between \$130,000 and \$160,000. No deduction was allowed for MAGI above the respective upper thresholds.

The tuition deduction, which has been extended several times before, expired after 2013. Congress could revive it retroactively later this year, but there are no guarantees.

2. American Opportunity Tax Credit: The current version of the American

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inflation. For 2014, the phaseout range is between \$80,000 to \$90,000 of MAGI for single filers and \$160,000 to \$180,000 for joint filers.

3. Lifetime Learning Credit: Parents may claim the Lifetime Learning Credit (LLC) in lieu of one of the other higher education tax breaks. The LLC is equal to 20% of the first \$10,000 of qualified expenses, for a maximum of \$2,000 per taxpayer, not per student. Therefore, the AOTC may clearly be preferable if you have two or more children in school. Furthermore, unlike the AOTC, the LLC is not 40% refundable.

The LLC is also subject to annual phaseout limits based on MAGI. For 2014, the phase-out range is from \$54,000 to \$64,000 for single filers and \$108,000 to \$128,000 for joint filers. Accordingly, the LLC is available to fewer taxpayers than the AOTC.

In any event, assuming you qualify, you can only claim one of the higher education tax breaks. For 2014, the choice is currently restricted to either tax credit.

Finally, be aware that these tax breaks apply to qualified higher education expenses for payments made in the current year or for an academic period beginning in the first three months of the following year. Typically, clients can claim a credit on their 2014 returns for tuition for the Spring 2015 semester that they pay this December. Upper-income clients may seek to reduce their MAGI to squeeze in under the MAGI thresholds for 2014.

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