

2016 Tax Benefits for Education

Source of information: <https://www.irs.gov/individuals/education-credits>

An education credit helps with the cost of higher education by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund. There are two education credits available: the [American opportunity tax credit](#) and the [lifetime learning credit](#).

Who Can Claim an Education Credit?

There are additional rules for each credit, but you must meet all three of the following for either credit:

1. You, your dependent or a third party pays [qualified education expenses](#) for higher education.
2. An eligible student must be enrolled at an [eligible educational institution](#).
3. The eligible student is yourself, your spouse or a dependent you list on your tax 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. You can't claim the AOTC if you were a nonresident alien for any part of the tax year unless you elect to be treated as a resident alien for federal tax purposes. For more information about AOTC and foreign students, visit [American Opportunity Tax Credit - Information for Foreign Students](#).

The law requires that both you and your qualifying student have a valid Social Security number or Individual Taxpayer Identification Number, issued before the due date for your tax return, in order to claim the AOTC.

Deductions

Tuition and Fees Deduction

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse or your dependent. You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education.

The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000. This deduction, reported on [Form 8917](#), Tuition and Fees Deduction, is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on [Schedule A](#) (Form 1040). This deduction may be beneficial to you if, for example, you don't qualify for the American opportunity or lifetime learning credits.

You may be able to take one of the education credits for your education expenses instead of a tuition and fees deduction. You can choose the one that will give you the lower tax. You cannot claim the tuition and fees deduction as well as an education credit for the same expense.

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 (\$160,000 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.

Qualified Student Loan

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent when you took out the loan.
- Paid or incurred within a reasonable period of time before or after you took out the loan.
- For education provided during an academic period for an eligible student.

Loans from the following sources are not qualified student loans:

- A related person.
- A qualified employer plan.

Qualified Education Expenses

For purposes of the student loan interest deduction, these expenses are the total costs of attending an eligible educational institution, including graduate school. They include amounts paid for the following items:

- Tuition and fees.
- Room and board.
- Books, supplies and equipment.
- Other necessary expenses (such as transportation).

The cost of room and board qualifies only to the extent that it is not more than the greater of:

- The allowance for room and board, as determined by the eligible educational institution, that was included in the cost of attendance (for federal financial aid purposes) for a particular academic period and living arrangement of the student, or
- The actual amount charged if the student is residing in housing owned or operated by the eligible educational institution.

Business Deduction for Work-Related Education

If you are an employee and can itemize your deductions, you may be able to claim a deduction for the expenses you pay for your work-related education. Your deduction will be the amount by which your qualifying work-related education expenses plus other job and certain miscellaneous expenses is greater than 2% of your adjusted gross income. An itemized deduction may reduce the amount of your income subject to tax.

If you are self-employed, you deduct your expenses for qualifying work-related education directly from your self-employment income. This reduces the amount of your income subject to both income tax and self-employment tax.

Your work-related education expenses may also qualify you for other tax benefits, such as the American opportunity credit, tuition and fees deduction and the lifetime learning credit. You may qualify for these other benefits even if you do not meet the requirements listed above. You cannot claim this deduction as well as the tuition and fees deduction for the same expense, nor can you claim this deduction as well as an education credit for the same expense.

To claim a business deduction for work-related education, you must:

- Be working.
- Itemize your deductions on Schedule A (Form 1040 or 1040NR) if you are an employee.
- File Schedule C (Form 1040), Schedule C-EZ (Form 1040), or Schedule F (Form 1040) if you are self-employed.
- Have expenses for education that meet the requirements discussed under Qualifying Work-Related Education, below.

Qualifying Work-Related Education

You can deduct the costs of qualifying work-related education as business expenses. This is education that meets at least one of the following two tests:

- The education is required by your employer or the law to keep your present salary, status or job. The required education must serve a bona fide business purpose of your employer.
- The education maintains or improves skills needed in your present work.

However, even if the education meets one or both of the above tests, it is not qualifying work-related education if it:

- Is needed to meet the minimum educational requirements of your present trade or business or
- Is part of a program of study that will qualify you for a new trade or business.

You can deduct the costs of qualifying work-related education as a business expense even if the education could lead to a degree.

Education Required by Employer or by Law

Education you need to meet the minimum educational requirements for your present trade or business is not qualifying work-related education. Once you have met the minimum educational requirements for your job, your employer or the law may require you to get more education. This additional education is qualifying work-related education if all three of the following requirements are met.

- It is required for you to keep your present salary, status or job.
- The requirement serves a business purpose of your employer.
- The education is not part of a program that will qualify you for a new trade or business.

When you get more education than your employer or the law requires, the additional education can be qualifying work-related education only if it maintains or improves skills required in your present work.

Education to Maintain or Improve Skills

If your education is not required by your employer or the law, it can be qualifying work-related education only if it maintains or improves skills needed in your present work. This could include refresher courses, courses on current developments and academic or vocational courses.

Savings Plans

Qualified Tuition Programs (529 plans)

States may establish and maintain programs that allow you to either prepay or contribute to an account for paying a student's qualified education expenses at a postsecondary institution. Eligible educational institutions may establish and maintain programs that allow you to prepay a student's qualified education expenses. If you prepay tuition, the student (designated beneficiary) will be entitled to a waiver or a payment of qualified education expenses. You can't deduct either payments or contributions to a QTP. For information on a specific QTP, you will need to contact the state agency or eligible educational institution that established and maintains it.

No tax is due on a distribution from a QTP unless the amount distributed is greater than the beneficiary's adjusted qualified education expenses. Qualified expenses include required tuition

and fees, books, supplies and equipment including computer or peripheral equipment, computer software and internet access and related services if used primarily by the student enrolled at an eligible education institution. Someone who is at least a half-time student, room and board may also qualify.

Coverdell Education Savings Account

A Coverdell ESA can be used to pay either qualified higher education expenses or qualified elementary and secondary education expenses. Income limits apply to contributors, and the total contributions for the beneficiary of this account cannot be more than \$2,000 in any year, no matter how many accounts have been established. A beneficiary is someone who is under age 18 or is a special needs beneficiary.

Contributions to a Coverdell ESA are not deductible, but amounts deposited in the account grow tax free until distributed. The beneficiary will not owe tax on the distributions if they are less than a beneficiary's qualified education expenses at an eligible institution. This benefit applies to qualified higher education expenses as well as to qualified elementary and secondary education expenses.

Here are some things to remember about distributions from Coverdell accounts:

- Distributions are tax-free as long as they are used for qualified education expenses, such as tuition and fees, required books, supplies and equipment and qualified expenses for room and board.
- There is no tax on distributions if they are for enrollment or attendance at an eligible educational institution. This includes any public, private or religious school that provides elementary or secondary education as determined under state law. Virtually all accredited public, nonprofit and proprietary (privately owned profit-making) post-secondary institutions are eligible.
- Education tax credits can be claimed in the same year the beneficiary takes a tax-free distribution from a Coverdell ESA, as long as the same expenses are not used for both benefits.
- If the distribution exceeds qualified education expenses, a portion will be taxable to the beneficiary and will usually be subject to an additional 10% tax. Exceptions to the additional 10% tax include the death or disability of the beneficiary or if the beneficiary receives a qualified scholarship.

For more information, see [Topic 310 – Coverdell Education Savings Accounts](#).

Scholarships and Fellowships

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or a graduate. A fellowship is generally an amount paid for the benefit of an individual to aid in the pursuit of study or research. Generally, whether the amount is tax free or taxable depends on the expense paid with the amount and whether you are a degree candidate.

A scholarship or fellowship is tax free only if you meet the following conditions:

- You are a candidate for a degree at an eligible educational institution.
- You use the scholarship or fellowship to pay qualified education expenses.

Qualified Education Expenses

For purposes of tax-free scholarships and fellowships, these are expenses for:

- Tuition and fees required to enroll at or attend an eligible educational institution.
- Course-related expenses, such as fees, books, supplies, and equipment that are required for the courses at the eligible educational institution. These items must be required of all students in your course of instruction.

However, in order for these to be qualified education expenses, the terms of the scholarship or fellowship cannot require that it be used for other purposes, such as room and board, or specify that it cannot be used for tuition or course-related expenses.

Expenses that Don't Qualify

Qualified education expenses do not include the cost of:

- Room and board.
- Travel.
- Research.
- Clerical help.
- Equipment and other expenses that are not required for enrollment in or attendance at an eligible educational institution.

This is true even if the fee must be paid to the institution as a condition of enrollment or attendance. Scholarship or fellowship amounts used to pay these costs are taxable.

Exclusions from Income

You may exclude certain educational assistance benefits from your income. That means that you won't have to pay any tax on them. However, it also means that you can't use any of the tax-free education expenses as the basis for any other deduction or credit, including the lifetime learning credit.

Employer-Provided Educational Assistance

If you receive educational assistance benefits from your employer under an educational assistance program, you can exclude up to \$5,250 of those benefits each year. This means your employer should not include the benefits with your wages, tips, and other compensation shown in box 1 of your Form W-2.

Educational Assistance Program

To qualify as an educational assistance program, the plan must be written and must meet certain other requirements. Your employer can tell you whether there is a qualified program where you work.

Educational Assistance Benefits

Tax-free educational assistance benefits include payments for tuition, fees and similar expenses, books, supplies, and equipment. The payments may be for either undergraduate- or graduate-level courses. The payments do not have to be for work-related courses. Educational assistance benefits do not include payments for the following items.

- Meals, lodging, or transportation.
- Tools or supplies (other than textbooks) that you can keep after completing the course of instruction.
- Courses involving sports, games, or hobbies unless they:
 - Have a reasonable relationship to the business of your employer, or
 - Are required as part of a degree program.

Benefits over \$5,250

If your employer pays more than \$5,250 for educational benefits for you during the year, you must generally pay tax on the amount over \$5,250. Your employer should include in your wages (Form W-2, box 1) the amount that you must include in income.

Working Condition Fringe Benefit

However, if the benefits over \$5,250 also qualify as a working condition fringe benefit, your employer does not have to include them in your wages. A working condition fringe benefit is a benefit which, had you paid for it, you could deduct as an employee business expense. For more

information on working condition fringe benefits, see Working Condition Benefits in chapter 2 of Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Five Ways to Offset Education Costs

IRS Tax Tip 2010-30

College can be very expensive. To help students and their parents, the IRS offers the following five ways to offset education costs.

1. The American Opportunity Credit This credit can help parents and students pay part of the cost of the first four years of college. The American Recovery and Reinvestment Act modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Eligible taxpayers may qualify for the maximum annual credit of \$2,500 per student. Generally, 40 percent of the credit is refundable, which means that you may be able to receive up to \$1,000, even if you owe no taxes.

2. The Hope Credit The credit can help students and parents pay part of the cost of the first two years of college. This credit generally applies to 2008 and earlier tax years. However, for tax year 2009 a special expanded Hope Credit of up to \$3,600 may be claimed for a student attending college in a Midwestern disaster area as long as you do not claim an American Opportunity Tax Credit for any other student in 2009.

3. The Lifetime Learning Credit This credit can help pay for undergraduate, graduate and professional degree courses – including courses to improve job skills – regardless of the number of years in the program. Eligible taxpayers may qualify for up to \$2,000 – \$4,000 if a student in a Midwestern disaster area – per tax return.

4. Enhanced benefits for 529 college savings plans Certain computer technology purchases are now added to the list of college expenses that can be paid for by a qualified tuition program, commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services.

5. Tuition and fees deduction Students and their parents may be able to deduct qualified college tuition and related expenses of up to \$4,000. This deduction is an adjustment to income, which means the deduction will reduce the amount of your income subject to tax. The Tuition and Fees Deduction may be beneficial to you if you do not qualify for the American opportunity, Hope, or lifetime learning credits.

You cannot claim the American Opportunity and the Hope and Lifetime Learning Credits for the same student in the same year. You also cannot claim any of the credits if you claim a tuition and

fees deduction for the same student in the same year. To qualify for an education credit, you must pay post-secondary tuition and certain related expenses for yourself, your spouse or your dependent. The credit may be claimed by the parent or the student, but not by both. Students who are claimed as a dependent cannot claim the credit.

Scholarships

Topic 421 - Scholarships, Fellowship Grants, and Other Grants

A scholarship is generally an amount paid or allowed to a student at an educational institution for the purpose of study. A fellowship grant is generally an amount paid or allowed to an individual for the purpose of study or research. Other types of grants include need-based grants (such as Pell Grants) and Fulbright grants.

Tax-Free

If you receive a scholarship, a fellowship grant, or other grant, all or part of the amounts you receive may be tax-free. Scholarships, fellowship grants, and other grants are tax-free if you meet the following conditions:

- You're a candidate for a degree at an educational institution that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities; and
- The amounts you receive are used to pay for tuition and fees required for enrollment or attendance at the educational institution, or for fees, books, supplies, and equipment required for courses at the educational institution.

Taxable

You must include in gross income:

- Amounts used for incidental expenses, such as room and board, travel, and optional equipment.
- Amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant. However, you don't need to include in gross income any amounts you receive for services that are required by the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.

How to Report

Generally, you report any portion of a scholarship, a fellowship grant, or other grant that you must include in gross income as follows:

- If filing [Form 1040](#) (PDF), [Form 1040A](#) (PDF), or [Form 1040EZ](#) (PDF), include the taxable portion in the total amount reported on the "Wages, salaries, tips" line of your tax return. If the taxable amount wasn't reported on Form W-2, enter "SCH" along with the taxable amount in the space to the left of the "Wages, salaries, tips" line. If filing [Form 1040NR](#) (PDF) or [Form 1040NR-EZ](#) (PDF), report the taxable amount on the "Scholarship and fellowship grants" line.

Estimated Tax Payments

If any part of your scholarship or fellowship grant is taxable, you may have to make estimated tax payments on the additional income. For additional information on estimated tax, refer to [Publication 505, Tax Withholding and Estimated Tax](#), and [Do You Have to Pay Estimated Tax?](#)

Additional Information

For more information, refer to [Publication 970, Tax Benefits for Education](#), and [Do I Include My Scholarship, Fellowship, or Education Grant as Income on My Tax Return?](#)

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Itemized Deductions, Standard Deduction

Top Frequently Asked Questions for Itemized Deductions, Standard Deduction see <https://www.irs.gov/help-resources/tools-faqs/faqs-for-individuals/frequently-asked-tax-questions-answers/itemized-deductions-standard-deduction>

1. [My university required each incoming freshman to come to school with their own computer. Is there any way to deduct the cost of the computer from my tax liability?](#)
2. [May I claim both my job-related education expenses \(minus 2% of AGI\) and an education credit on my tax return?](#)
3. [Last year, my parents and I both took out student loans for me. We both received Form 1098-E for our separate loans. I wasn't their dependent last year. Can we both claim student loan interest on our tax returns?](#)
4. [I donated a used car to a qualified charity that sold the car immediately after I donated it. I would like to take the charitable contribution as an itemized deduction. Do I need to attach a special form to my return for the donation? What records should I keep?](#)
5. [Is the interest amount that we paid to the IRS deductible?](#)
6. [My father is in a nursing home and I pay for the entire cost. Can I deduct these expenses on my tax return?](#)
7. [Is interest on a home equity line of credit deductible as a second mortgage?](#)
8. [Is the mortgage interest and real property tax I pay on a second residence deductible?](#)

9. If I must deduct points over the life of my mortgage, and I have a 30-year mortgage, should I divide the points paid by 30 and enter that amount on Schedule A?
 10. My spouse and I are filing separate returns. How do we split our itemized deductions?
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