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- [What's Hot](#)
- [News Releases](#)
- [IRS - The Basics](#)
- [IRS Guidance](#)
- [Media Contacts](#)
- [Facts & Figures](#)
- [Problem Alerts](#)
- [Around the Nation](#)
- [e-News Subscriptions](#)

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- [Multimedia Center](#)
- [Noticias en Español](#)
- [Radio PSAs](#)
- [Tax Scams](#)
- [The Tax Gap](#)
- [2013 Fact Sheets](#)
- [2013 Tax Tips](#)
- [Armed Forces](#)
- [Latest News Home](#)

Parents and Students: Check Out College Tax Benefits for 2012 and Years Ahead

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WASHINGTON — The Internal Revenue Service today reminded parents and students that now is a good time to see if they qualify for either of two college education tax credits or any of several other education-related tax benefits.

In general, the American opportunity tax credit, lifetime learning credit and tuition and fees deduction are available to taxpayers who pay qualifying expenses for an eligible student. Eligible students include the primary taxpayer, the taxpayer's spouse or a dependent of the taxpayer.

Though a taxpayer often qualifies for more than one of these benefits, he or she can only claim one of them for a particular student in a particular year. The benefits are available to all taxpayers — both those who itemize their deductions on [Schedule A](#) and those who claim a standard deduction. The credits are claimed on [Form 8863](#) and the tuition and fees deduction is claimed on [Form 8917](#).

The American Taxpayer Relief Act, enacted Jan. 2, 2013, extended the American opportunity tax credit for another five years until the end of 2017. The new law also retroactively extended the tuition and fees deduction, which had expired at the end of 2011, through 2013. The lifetime learning credit did not need to be extended because it was already a permanent part of the tax code.

For those eligible, including most undergraduate students, the American opportunity tax credit will yield the greatest tax savings. Alternatively, the lifetime learning credit should be considered by part-time students and those attending graduate school. For others, especially those who don't qualify for either credit, the tuition and fees deduction may be the right choice.

All three benefits are available for students enrolled in an eligible college, university or vocational school, including both nonprofit and for-profit institutions. None of them can be claimed by a [nonresident alien](#) or married person filing a separate return. In most cases, dependents cannot claim these education benefits.

Normally, a student will receive a [Form 1098-T](#) from their institution by the end of January of the following year. This form will show information about tuition paid or billed along with other information. However, amounts shown on this form may differ from amounts taxpayers are eligible to claim for these tax benefits. Taxpayers should see the instructions to Forms 8863 and 8917 and [Publication 970](#) for details on properly figuring allowable tax benefits.

Many of those eligible for the American opportunity tax credit qualify for the maximum annual credit of \$2,500 per student. Here are some key features of the credit:

- The credit targets the first four years of post-secondary education, and a student must be enrolled at least half time. This means that expenses paid for a student who, as of the beginning of the tax year, has already completed the first four years of college do not qualify. Any student with a felony drug conviction also does not qualify.
- Tuition, required enrollment fees, books and other required course materials generally qualify. Other expenses, such as room and board, do not.
- The credit equals 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 can only be claimed by taxpayers whose modified adjusted gross income (MAGI) is \$80,000 or less. For married couples filing a joint return, the limit is \$160,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is \$180,000 or more and singles, heads of household and some widows and widowers whose MAGI is \$90,000 or more.
- Forty percent of the American opportunity tax credit is refundable. This means that even people who owe no tax can get an annual payment of up to \$1,000 for each eligible student. Other education-related credits and deductions do not provide a benefit to people who owe no tax.

The lifetime learning credit of up to \$2,000 per tax return is available for both graduate and undergraduate students. Unlike the American opportunity tax credit, the limit on the lifetime learning credit applies to each tax return, rather than to each student. Though the half-time student requirement does not apply, the course of study must be either part of a post-secondary degree program or taken by the student to maintain or improve job skills. Other features of the credit include:

- Tuition and fees required for enrollment or attendance qualify as do other fees required for the course. Additional expenses do not.
- The credit equals 20 percent of the amount spent on eligible expenses across all students on the return. That means the full \$2,000 credit is only available to a taxpayer who pays \$10,000 or more in qualifying tuition and fees and has sufficient tax liability.

- Income limits are lower than under the American opportunity tax credit. For 2012, the full credit can be claimed by taxpayers whose MAGI is \$52,000 or less. For married couples filing a joint return, the limit is \$104,000. The credit is phased out for taxpayers with incomes above these levels. No credit can be claimed by joint filers whose MAGI is \$124,000 or more and singles, heads of household and some widows and widowers whose MAGI is \$62,000 or more.

Like the lifetime learning credit, the tuition and fees deduction is available for all levels of post-secondary education, and the cost of one or more courses can qualify. The annual deduction limit is \$4,000 for joint filers whose MAGI is \$130,000 or less and other taxpayers whose MAGI is \$65,000 or less. The deduction limit drops to \$2,000 for couples whose MAGI exceeds \$130,000 but is no more than \$160,000, and other taxpayers whose MAGI exceeds \$65,000 but is no more than \$80,000.

Eligible parents and students can get the benefit of these provisions during the year by having less tax taken out of their paychecks. They can do this by filling out a new [Form W-4](#), claiming additional withholding allowances, and giving it to their employer.

There are a variety of other education-related tax benefits that can help many taxpayers. They include:

- Scholarship and fellowship grants — generally tax-free if used to pay for tuition, required enrollment fees, books and other course materials, but taxable if used for room, board, research, travel or other expenses.
- Student loan interest deduction of up to \$2,500 per year.
- Savings bonds used to pay for college — though income limits apply, interest is usually tax-free if bonds were purchased after 1989 by a taxpayer who, at time of purchase, was at least 24 years old.
- Qualified tuition programs, also called 529 plans, used by many families to prepay or save for a child's college education.

Taxpayers with qualifying children who are students up to age 24 may be able to claim a dependent exemption and the earned income tax credit.

The general comparison table in [Publication 970](#) can be a useful guide to taxpayers in determining eligibility for these benefits. Details can also be found in the [Tax Benefits for Education Information Center](#) on IRS.gov.

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