

2016 Tax Year - Federal Tax Benefits for Higher Education

The federal government provides a number of tax incentives that can help lower the cost of higher education. These incentives include:

- Tax credits directly reduce the amount of tax you pay.
- Tax deductions reduce the amount of your income that is taxed.

You may qualify for more than one of these incentives, but there are some restrictions. It's a good idea to calculate your taxes multiple ways to find the maximum benefits available to you.

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The 1098-T Statement

You will receive information about your educational expenses in a 1098-T statement from the institution of higher education you attended. Students should, in most cases, receive Form 1098-T from their eligible educational institution by January 31, 2017. (You might receive this by mail or electronically. Be sure to save this information, or give it to the person who claims you on their tax return if you don't claim yourself.)

NEW Unlike in previous years, for tax year 2016, a taxpayer does not have to have a 1098-T form to claim the tuition and fees deduction, American opportunity credit, or the lifetime learning credit. If the student did not receive a Form 1098-T because the student's educational institution is not required to send a Form 1098-T to the student under existing rules, the taxpayer may still apply for these educational benefits.

Some schools report only tuition and fees on this form. If your 1098-T doesn't include amounts you paid for course-related books, supplies, and equipment, and these expenses are covered by the tax benefit you are taking, you can use your records to calculate the amounts paid for these items and report this amount on your tax return.

The American Opportunity Tax Credit

The credit offsets what you pay for the first four years of higher education by reducing the amount of income tax you pay. In addition, the credit is partially refundable so you may be able to get a check from the IRS even if you don't owe any income tax!

This credit provides up to \$2,500 per student and up to 40 percent of the credit may be refundable.

Eligibility Requirements

The credit is available to individuals whose modified adjusted gross income (MAGI) is \$90,000 or less, or \$180,000 or less for married couples filing jointly. The amount you are eligible for varies depending on your income, how much you spent on higher education expenses, and how many eligible students are in your family.

You can use this credit to offset the cost of tuition, fees, course-related books, supplies, and equipment for higher education (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2016 for yourself, your spouse, or someone you claim as a dependent on your tax return.

The student must have been enrolled at least half-time for at least one academic period that began during 2016 (or the first 3 months of 2017 if the qualified expenses were paid in 2016) in an eligible program leading to a degree, certificate, or other recognized credential at an eligible school – those that are eligible to participate in the federal student aid programs (virtually all accredited, public, nonprofit, and proprietary post-secondary institutions). The credit is only available for the first four years of post-secondary education (undergraduate education). If a student progresses from an undergraduate to a graduate program during the tax year and has not claimed the American Opportunity Tax Credit for more than four taxable years, the student can claim the American Opportunity Tax Credit for the entire taxable year.

You must file a federal income tax return to get the credit (even if you aren't required to file a return). If you are claimed as a dependent on someone's tax return, only the person who claims you can apply for the credit. If you are not claimed as a dependent on someone else's return, were under 24-years-old at the end of 2016 and your earned income was less than half of your support, you can claim the credit to reduce any tax you owe. Forty percent of the credit is refundable. This means you can get it even if you owe no tax.

You can't claim this credit if the student was convicted of a felony for possessing or distributing a controlled substance as of the end of 2016.

NEW If you claim the American opportunity credit even though you're not eligible, you may be banned from claiming the credit for up to 10 years.

NEW You must have a taxpayer identification number (TIN) by the due date of your 2016 return (including extensions) in order to claim the American opportunity credit on either your original or an amended 2016 return, even if you later get a TIN.

Background

This credit replaced the Hope Credit and provides more generous benefits to more taxpayers. It was first available for the 2009 tax year and was to expire at the end of 2012, but has been extended through December 2017 by the American Taxpayer Relief Act of 2012.

The Lifetime Learning Tax Credit

Unlike other credits, the Lifetime Learning Credit is available for all types of post-secondary education. Generally, you should only use this credit once you have exhausted your eligibility for more generous credits. This credit may be particularly helpful to graduate students.

This credit provides up to \$2,000 per tax return (not per student). Unlike the American Opportunity Tax Credit, this credit is non-refundable so the maximum credit is limited to the amount of tax you owe.

Eligibility Requirements

You must have a modified adjusted gross income (MAGI) of less than \$65,000 (for married couples filing a joint return, MAGI must be less than \$131,000).

NEW For 2016, the amount of your lifetime learning credit is gradually reduced (phased out) if your MAGI is between \$55,000 and \$65,000 (\$111,000 and \$131,000 if you file a joint return).

This credit can be used to offset what you paid for tuition and fees, as well as other expenses required by the institution for books, supplies and equipment (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2016 for yourself, your spouse, or someone you claim as a dependent on your tax return.

You don't have to be pursuing a degree or certificate to qualify for the Lifetime Learning Credit. You can claim it for any post-secondary education and for courses to acquire or improve job skills.

You must file a federal income tax return and have some income tax liability to get the credit. If you are claimed as a dependent on someone's tax return, only the person who claims you can receive the credit.

If you claim the American Opportunity credit for one or more students in your family, you can't use their expenses to claim the Lifetime Learning Credit.

Unlike other credits, students who have felony drug convictions can still qualify for the Lifetime Learning Credit.

Claiming Tax Credits

To claim any higher education tax credit, you must report the amount of your qualified expenses (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) on IRS Form 8863 - Education Credits (<http://www.irs.gov/pub/irs-pdf/f8863.pdf>).

Tuition and Fees Tax Deduction

This deduction can reduce your taxable income by as much as \$4,000 and may benefit you if you are not eligible for any of the tax credits. It is an adjustment to your income so you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Eligibility Requirements

Taxpayers with a modified adjusted gross income (MAGI) of less than \$80,000 (\$160,000 if married

and filing jointly) may be eligible for a deduction of up to \$4,000.

The amount of the Tuition and Fees Deduction you are eligible for also depends on the amount of qualified tuition and related expenses paid for eligible students. You can use the deduction to offset what you paid for tuition and fees, as well as other expenses required by the institution for books, supplies and equipment (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance you received) during 2016 for yourself, your spouse, or someone you claim as a dependent on your tax return. The expenses must have been for a student enrolled in one or more courses at an eligible higher education institution (virtually all accredited, public, nonprofit, and proprietary post secondary institutions).

You can't claim both an education credit and the Tuition and Fees Deduction for the same student for the same year, but you can take the deduction for one student and a credit for another.

You can't take this deduction if you deduct tuition and fees expenses under any other provision of the law (for example, as a business expense).

You can't claim this deduction if you are married and file taxes separately or if another person can claim you as a dependent on his or her tax return.

Calculate your Tuition and Fees Deduction with IRS Form 8917 - Tuition and Fees Deduction (<http://www.irs.gov/pub/irs-pdf/f8917.pdf>).

Student Loan Interest Deduction

This deduction allows you to deduct interest paid on student loans for yourself, your spouse, or your dependents. It can reduce your taxable income by as much as \$2,500. The amount of the Student Loan Interest Deduction you are eligible for depends on the amount of interest paid and your income. It is an adjustment to your income so you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Eligibility Requirements

Your modified adjusted gross income (MAGI) must be less than \$80,000 (less than \$160,000 if married and filing a joint return) to qualify for this deduction.

NEW For 2016, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between \$65,000 and \$80,000 (\$130,000 and \$160,000 if you file a joint return).

Qualified student loans must have been used to fund educational expenses such as tuition, room and board, fees, and books for a student enrolled at least half-time and pursuing a degree, certificate, or similar program at an eligible institution (virtually all accredited, public, nonprofit, and proprietary post secondary institutions).

You can't claim this deduction if you are married and file separately or if another person can claim you as a dependent on his or her tax return.

Figure your Student Loan Interest Deduction using the Student Loan Interest Deduction Worksheet 4-1 (https://www.irs.gov/publications/p970/ch04.html#en_US_2016_publink1000178298).

Taxes on Student Aid and Loan Forgiveness

Scholarships, fellowships, and grants that you received and that are reported on the 1098-T may need to be reported as taxable income in certain circumstances, but are often tax-free. In general, if you are pursuing a degree, certificate, or program of training towards gainful employment, and used the funds to pay tuition, fees, or for required books, supplies and equipment, these sources of assistance are not counted as taxable income.

If you've received a student loan that states it can be forgiven, cancelled, or paid if you work for a certain period of time, in certain professions, for any of a broad class of employers, then the amounts forgiven may qualify for tax-free treatment.

NASFAA provides this information to students and parents solely for informational purposes and it is not intended to be tax or legal advice. For more information, see IRS Publication 970 (<https://www.irs.gov/pub/irs-pdf/p970.pdf>) or consult a qualified tax advisor

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1101 Connecticut Avenue NW, Suite 1100, Washington, DC 20036-4303

T: (202) 785-0453 F: (202) 785-1487 E: info@nasfaa.org