

# TAX BENEFITS FOR EDUCATION

DETAILED OVERVIEW | DEADLINE: APRIL 15, 2010



**What benefits are available?** Several tax benefits are available to help families meet the cost of postsecondary education. These tax benefits are intended to help students and their parents fulfill a variety of education objectives. However, PNC does not provide tax advice and makes no representation or warranty as to the accuracy of the information. Please consult your tax advisor for tax advice on the matters contained in this brochure. This publication provides only a overview of tax benefits that may be available to you if you are paying higher education costs for yourself or another student. Please refer to publication 970 for more details.

**Three tax credits highlighted in this publication:**

- The American Opportunity Credit
- The Hope Credit
- The Lifetime Learning Credit

**Other benefits include:**

- Deduct student loan interest;
- Receive tax-free treatment of canceled student loans;
- Deduct tuition and fees for higher education;
- Make early withdrawals from any type of individual retirement arrangement (IRA) for education costs without paying the 10% additional tax;
- Cash-in savings bonds for education costs with out having to pay tax on the interest; and
- Receive tax-free educational benefits from your employers

A tax credit reduces the amount of income tax you may have to pay. Unlike a deduction, which reduces the amount of income subject to tax, a credit directly reduces the tax itself. Be sure to refer to publication 970 for more information.

**What is student loan interest?** It is interest you paid during the year on a loan you took out to pay qualified higher education expenses such as tuition and fees; room and board; books, supplies, and equipment; or other necessary expenses (such as transportation) that were:

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

**What can you include as interest?** Loan origination fees (other than fees for services), capitalized interest, interest on revolving lines of credit, and interest on refinanced student loans are considered to be student loan interest. If eligible, you can deduct all remaining interest paid during the life of the loan, including both required and voluntary interest payments.

Please note that revolving lines of credit, such as credit card debt, qualify if the borrower uses the line of credit only to pay qualified higher education expenses. Interest on refinanced loans may include consolidation loans and collapsed loans (two or more loans of the same borrower that are treated by both the lender and the borrower as one loan). Voluntary interest payments are those made on a qualified student loan during a period when interest payments are not required, such as when the borrower has been granted a deferment.

**What does not count as interest?** A loan from a related person, qualified employer plan, or a loan for which you were not legally liable.

**Who can claim the deduction?** Generally, you can claim the deduction if all of the following requirements are met: your filing status is any filing status except married filing separately; no one else is claiming an exemption for you on tax return; and you paid interest on a loan for qualified higher education expenses for a reasonable period of time for an eligible student.

**How much interest can you deduct?** Your student loan interest deduction is the total interest paid in 2009 or the lesser of \$2,500. However, the amount determined may be gradually reduced (phased out) or eliminated based upon your filing status and modified adjusted gross income (MAGI) explained below.

FILING STATUS	MAGI	INTEREST DEDUCTION
Single,	Not more than \$60,000	Not affected by phase out
Head of Household, or	More than \$60,000 but less than \$75,000	Reduced because of phase out
Qualified Widow(er)	\$75,000 or more	Eliminated by the phase out
Married Filing Joint Return	Not more than \$120,000	Not affected by phase out
	More than \$120,000 but less than \$150,000	Reduced because of phase out
	\$150,000 or more	Eliminated by the phase out

To calculate your phase out, multiply your interest deduction (before the phase out) by a fraction. The numerator is your adjusted gross income minus \$60,000 (\$120,000 in the case of a joint return). The denominator is \$15,000 (\$30,000 in the case of a joint return). Subtract the result from your deduction (before phase out). This result is the amount you can deduct.

**Example:** During 2009 you paid \$800 interest on a qualified student loan. Your 2009 MAGI is \$145,000 and you are filing a joint return. You must reduce your deduction by \$133, as calculated below:

$$\$800 \times \frac{\$145,000 - \$120,000}{\$30,000} = \$667$$

**You can deduct \$133 (\$800 - \$667)**



# TAX CREDITS FOR EDUCATION

Please note that the information contained in this chart is from IRS publication 970. PNC does not provide tax advice and makes no representation or warranty as to the accuracy of the information. Please consult your tax advisor for tax advice on the matters contained below and throughout this material. (Revised 02/10)



## American Opportunity Credit

## Hope Credit

## Lifetime Learning Credit

Maximum Credit  
(additional requirements may apply)

Up to \$2,500 credit per eligible student

Up to \$1,800 (\$3,600 if a student in a  
Midwestern disaster area) credit per  
eligible student

Up to \$2,000 (\$4,000 if a student in a  
Midwestern disaster area) credit per  
eligible student

Limit on modified  
adjusted gross income (MAGI)

\$180,000 if married filing jointly; \$90,000  
if single, head of household, or qualifying  
widow(er)

\$120,000 if married filing jointly; \$60,000  
if single, head of household, or qualifying  
widow(er)

\$120,000 if married filing jointly; \$60,000  
if single, head of household, or qualifying  
widow(er)

Refundable or nonrefundable

40% of credit may be refundable; the rest  
is nonrefundable

Nonrefundable—credit limit to the  
amount of tax you must pay on your  
taxable income

Nonrefundable—credit limit to the  
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Postsecondary number of years

Four years of postsecondary  
education

First two years of postsecondary  
education

All years of postsecondary education and  
courses to acquire or improve job skills

Number of tax years available

Four tax years per eligible student  
(including any years the Hope Credit  
was claimed)

Two tax years per eligible student

Unlimited

Type of degree

Undergraduate degree or other  
recognized education credential

Undergraduate degree or other  
recognized education credential

Student does not need to be pursuing a  
degree or any other recognized education  
credential

Number of courses

Student must be enrolled at least half  
time for at least one academic period  
during the tax year

Student must be enrolled at least half  
time for at least one academic period  
during the tax year

One or more courses

Felony drug conviction

None on the student's record

None on the student's record

Felony drug convictions are permitted

Qualified expenses

Tuition/fees, text books, supplies and  
equipment (purchased from the institution  
or elsewhere)

Tuition/Fees only. Additional expenses  
allowed for Midwestern disaster areas.

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Payment for academic periods

Payments in 2009 for the academic  
period beginning in 2009 and the first  
three months of 2010

Payments in 2009 for the academic  
period beginning in 2009 and the first  
three months of 2010

Payments in 2009 for the academic  
period beginning in 2009 and the first  
three months of 2010