

# TAX BENEFITS FOR EDUCATION

## DETAILED OVERVIEW | DEADLINE: APRIL 15, 2011



**What benefits are available?** Several tax benefits are available to help families meet the cost of postsecondary education. This sheet provides an overview of a few tax benefits. For additional information, including deductions not covered here, please refer to IRS Publication 970 for more details.

**Credit or Deduction:** There are two types of tax benefits available with respect to higher education costs: credits and deductions.

- A deduction reduces the amount of income on which your tax liability is calculated.
- A credit is a dollar-for-dollar reduction in the tax due, essentially a tax payment from the government.

A *nonrefundable credit* reduces the amount of tax you pay but is limited to the amount of your tax liability.

A *refundable credit* is unlimited and may be in excess of your tax liability: a payment to you.

The credits, outlined on the following page, relate to payments made in the current year for higher education expenses. If you are currently repaying an existing qualifying student loan, you may be eligible for the student loan interest deduction.

### Two tax credits highlighted on the next page:

- The American Opportunity Credit
- The Lifetime Learning Credit

### STUDENT LOAN INTEREST DEDUCTION

**What is the student loan interest deduction?** A deduction of up to \$2,500 for interest you paid during the tax year on a qualified student loan.

**Who can claim the deduction?** Generally, you can claim the deduction if your filing status is any filing status except married filing separately and no one else is claiming you as a dependent on a tax return.

**What is a qualified student loan?** A loan incurred for the sole purpose of paying qualified education expenses for you, your spouse or your dependent. Loans from a relative or a qualified employer plan are not qualified student loans.

**What are qualified education expenses?** The definition of qualified education expenses differs with respect to the various deductions and credits available. As it relates to the student loan interest deduction, qualified education expenses include tuition, fees, room and board, books, supplies, equipment and other necessary expenses, whether paid to the institution or purchased elsewhere.

**Who is an eligible student?** The definition of eligible student differs with respect to the various deductions and credits available. A student who was enrolled at least half time in a program leading to a degree, certificate, or other recognized credential is an eligible student for purposes of the student loan interest deduction.

**How much interest can you deduct?** Your student loan interest deduction is the lesser of total interest paid in 2010 or \$2,500, subject to a phase out based on your modified adjusted gross income.

**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.

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

### What can you deduct as interest?

- Simple interest on a qualified student loan
- Loan origination fees (other than fees for services)
- Capitalized interest
- Interest on revolving lines of credit, such as credit cards, used solely for payment of higher education expenses
- Interest on refinanced student loans are considered to be student loan interest; this includes interest on consolidated or collapsed loans
- Voluntary interest payments 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

# 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 02/11)



## American Opportunity Credit

## Lifetime Learning Credit

<b>Maximum Credit (additional requirements may apply)</b>	100% of the First \$2,000 and 25% of the next \$2,000 of eligible expenses, up to a maximum of \$2,500 per eligible student	Up to \$2,000 credit per eligible student (20% of first \$10,000)												
<b>Limit on modified adjusted gross income (MAGI)</b>	<table border="1"> <tbody> <tr> <td>MJF</td> <td>\$160,000 - \$180,000</td> </tr> <tr> <td>Single, HOH, QW</td> <td>\$80,000 - \$90,000</td> </tr> <tr> <td>MFS</td> <td>Do not qualify</td> </tr> </tbody> </table>	MJF	\$160,000 - \$180,000	Single, HOH, QW	\$80,000 - \$90,000	MFS	Do not qualify	<table border="1"> <tbody> <tr> <td>MJF</td> <td>\$100,000 - \$120,000</td> </tr> <tr> <td>Single, HOH, QW</td> <td>\$50,000 - \$60,000</td> </tr> <tr> <td>MFS</td> <td>Do not qualify</td> </tr> </tbody> </table>	MJF	\$100,000 - \$120,000	Single, HOH, QW	\$50,000 - \$60,000	MFS	Do not qualify
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<b>Refundable or nonrefundable</b>	40% of credit may be refundable	Nonrefundable tax credit												
<b>Postsecondary number of years</b>	Four years of postsecondary education	All years of postsecondary education and courses to acquire or improve job skills												
<b>Type of degree</b>	Undergraduate degree at a qualified educational institution or other recognized education credential	Student does not need to be pursuing a degree or any other recognized education credential												
<b>Courses Eligible</b>	Student must be enrolled at least half time for at least one academic period during the tax year	One or more courses												
<b>Felony drug conviction</b>	None on the student's record	Felony drug convictions are permitted												
<b>Qualified expenses</b>	Course materials, tuition/fees, text books, supplies and equipment which may be purchased from the institution or elsewhere	Tuition/fees, books, supplies and equipment which must be paid to the institution as a condition of the student's enrollment or attendance												

Note: The American Opportunity Credit is only available for the 2010 tax year, after 2010 the Hope Credit will be available.