

## BUILDING A BRIGHT FUTURE

The thought of paying for a college education can be overwhelming, to say the least. But it may be more attainable than you think, thanks to financial aid and the education tax benefits that actually put money back in your pocket.

### Here to Help

Great Lakes Higher Education Guaranty Corporation is here to help you meet your education goals. As you evaluate your financial aid options, we can help you make sure you know everything you need to know along the way. As a nonprofit, we have no financial interest in your education—only human interest in your success.

Visit [mygreatlakes.org](http://mygreatlakes.org) for more on paying for college and building a bright financial future.

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## EDUCATION TAX BENEFITS



Getting a Return on Your Investment

## MAXIMIZING YOUR INVESTMENT

You understand the benefits that higher education offers, which is why you invested in an education for yourself or your child. So it's good to know that you can maximize your investment by claiming one or more education tax benefits.

If you pay for college and pay taxes in the same year, you may qualify for generous federal and state education tax benefits. Each year millions of taxpayers are able to reduce their taxes through one or more education tax benefits.

## AVAILABLE BENEFITS

**Federal Tax Credits.** Tax credits directly reduce the federal taxes you owe. A tax credit is a dollar-for-dollar reduction of the amount you owe.

**Federal and State Tax Deductions.** Deductions are benefits that reduce your taxable income. By reducing your taxable income, a deduction may also reduce the taxes you owe.

### Education Tax Benefits

	AMERICAN OPPORTUNITY TAX CREDIT*	LIFETIME LEARNING CREDIT	TUITION AND FEES DEDUCTION	STUDENT LOAN INTEREST DEDUCTION
Benefit	Directly reduces the federal taxes you owe by the amount of the credit		Indirectly reduces federal taxes you owe by reducing taxable income	
Annual Limit	\$2,500	\$2,000 credit per return	\$4,000 deduction	\$2,500 deduction
Qualifying Expenses	Tuition Required fees Course materials	Tuition Required fees	Tuition Required fees	Interest paid on student loans
Qualifying Education	Undergraduate education	Undergraduate education Graduate education Courses to acquire or improve job skills	Undergraduate education Graduate education	Undergraduate education Graduate education
Other Conditions	None	None	None	Student must be or have been enrolled at least half-time in a degree program
Income Restrictions	Income cannot exceed a maximum set each year by the IRS			

\* New for 2009



## AVAILABLE TAX CREDITS

There are two federal tax credits. Although the credits differ in amount and eligibility requirements, they share one feature: they directly reduce the amount of taxes you pay.

**The American Opportunity Tax Credit** offers a federal tax credit up to \$2,500. Independent students, families claiming dependent students, and married students are eligible. The new credit expands the Hope credit for 2009 and 2010 and allows you to claim up to four years of postsecondary education. Qualifying education expenses include tuition and fees and the cost of required course materials, such as books and supplies.

If the credit is more than your tax bill for the year, up to 40 percent of the credit (up to \$1,000) may be paid as a tax refund.

**The Lifetime Learning Credit** offers a federal tax credit of up to \$2,000 for each year you pay for college. Independent students, families claiming dependent students, and married students are eligible during any year in which the student attended college, even if it was just one or two classes.

The lifetime learning credit can be claimed only once per tax return. This means the maximum lifetime learning credit is always \$2,000 per year—even for families with more than one dependent student.

The tuition and fees tax deduction may not be claimed in the same year that either credit is claimed.

## EVALUATING TAX CREDITS

The amount of a credit is based on qualifying education expenses paid during the year. The expenses are summarized by schools on Form 1098-T and mailed to you sometime in January.

Once you know what education expenses qualify, you can calculate your tax credit.

For example, if you claim an American Opportunity Tax Credit, the credit equals 100% of the first \$2,000 and 25% of the next \$2,000 in qualified expenses. This means if your expenses total \$3,000, your credit may be up to \$2,250 (100% of the first \$2,000 and 25% of the remaining \$1,000).

If you claim a Lifetime Learning Credit, the credit equals 20% of the first \$10,000 in qualified expenses. This means if your expenses total \$1,400, your credit may be up to \$280 (20% of \$1,400). Be aware that the amount cannot exceed the amount of taxes you owe. This means that you can never get back more than you pay.

**General Requirements.** Before claiming a federal tax credit, you need to make sure you qualify. Here are a few things to consider:

- You must file federal taxes.
- Your income must not exceed a maximum amount set each year by the IRS.
- You must have paid qualified education expenses during the tax year.
- You can claim only one credit per student in the same year. Families with more than one dependent student can claim a different credit for each student. The same is true for married couples with both spouses in school.

## FEDERAL AND STATE DEDUCTIONS

There are several federal and state tax deductions that may allow you to reduce your taxable income. By reducing your taxable income, these deductions may also reduce the taxes you owe. For any given year, you may qualify for additional state and federal tax deductions. Check with a tax professional for more information.

### Federal Deductions

**The Tuition and Fees Deduction** can reduce your income by up to \$4,000. The taxpayer must claim an eligible student (an individual enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return—or the deduction may be for the taxpayer or the taxpayer's spouse. Qualified education expenses include tuition and fees required for enrollment or attendance at an eligible postsecondary institution.

**The Student Loan Interest Deduction** offers up to a \$2,500 deduction of interest from federal taxable income. Independent students, families with one or more dependent students, and married students may be eligible for this deduction during any year in which they paid interest on a student loan.

### State Deductions

Many state governments offer tax deductions for college expenses. For example, eligible taxpayers may be allowed to reduce their state taxable income by deducting a percentage of their qualified education expenses.

To learn about state deductions, contact your state income tax agency or a tax professional.

## OTHER RESOURCES

- **IRS Publication 970.** A comprehensive explanation of the federal education tax benefits available. Access this publication online ([irs.gov](http://irs.gov)) or call 800-829-3676 to order it for delivery by mail.
- **FinAid.org.** Information on federal education tax benefits (see the Other Types of Aid section of the website).
- **Studentaid.org.** Information from the National Association of Student Financial Aid Administrators (NASFAA) includes a detailed description of federal education tax benefits.
- **Taxsites.com.** Links to individual state tax websites.
- **SmartMoney.com.** Information about paying for college and taking advantage of education tax benefits (see the “Personal Finance” section of the website). Also includes strategies that may allow you to tap your retirement funds tax-free to pay for college.
- **Company Benefits Administrator.** If you're employed full time, you may be eligible to receive tax-free tuition assistance from your employer. Contact your company benefits administrator for more information.

