

EDUCATION TAX CREDITS

	American Opportunity Credit	Life Time Learning Credit
Maximum credit	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow (er)	\$130,000 if married filing jointly; \$65,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	40% of credit may be refundable; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available ONLY if the student had not completed the first 4 years of postsecondary education before 2017	Available for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half time for at least one academic period beginning during 2017 (or the first 3 months of 2018 if the qualified expenses were paid in 2017)	Available for one or more courses
Felony drug conviction	As of the end of the year, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2017 for academic periods beginning in 2017 or the first 3 months of 2018 if paid in 2017	

Here's what tax return preparers need to know:

- **Review Form 1098-T:** did student attend at least half time for a full academic period? Is graduate student checked? What academic period do the reported amounts cover? Remember the amounts in Boxes 1 and 2 on the Form 1098-T may differ from the amounts your client can use to compute a credit on this year's tax returns.
- If the **student didn't receive a Form 1098-T:** inform your client that IRS may ask for documentation to support the credit. See Forms [866-H-AOC](#) and [866-H-AOC-MAX](#) for examples of the documentation needed. Also available in Spanish, [Form 866-H-AOC \(SP\)](#).
- **Complete and file Form 8863:** Part 1 for AOTC, Part 2 for LLC and your client must verify eligibility by completing Part III for both credits.
- **Remember No Double Benefits Allowed**-your client can claim only one tax benefit for the same education expenses and for the same student. Ask where the education funds came from--tax-free scholarship or grant, Department of Veteran's Affairs, tax-free portion of a Coverdell education savings account or a qualified tuition program.

American Opportunity Tax Credit is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40 percent of any remaining amount of the credit (up to \$1,000) refunded to you.

Who is an eligible student for AOTC?

To be eligible for AOTC, the student must:

- Be pursuing a degree or other recognized education credential
- Be enrolled at least half time for at least one academic period (5 months) beginning in the tax year
- Not have finished the first four years of higher education at the beginning of the tax year
- Not have claimed the AOTC or the former Hope credit for more than four tax years
- Not have a felony drug conviction at the end of the tax year
- Must have a Taxpayer Identification Number (SSN, ITIN, or ATIN) before the due date of the return

Academic Period can be semesters, trimesters, quarters or any other period of study such as a summer school session. The schools determine the academic periods. For schools that use clock or credit hours and do not have academic terms, the payment period may be treated as an academic period. At least 5 months in school.

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) college, university, vocational school, or other postsecondary institution. Also, the institution must be eligible to participate in a student aid program administered by the Department of Education. Virtually all accredited postsecondary institutions meet this definition.

What are the income limits for AOTC?

- To claim the full credit, your MAGI, modified adjusted gross income must be \$80,000 or less (\$160,000 or less for married filing jointly).
- You receive a reduced amount of the credit if your MAGI is over \$80,000 but less than \$90,000 (over \$160,000 but less than \$180,000 for married filing jointly).
- You cannot claim the credit if your MAGI is over \$90,000 (\$180,000 for joint filers).

To claim AOTC, you must complete [Form 8863](#) and attach the completed form to your Form 1040 or Form 1040A.

What is the AOTC worth?

The amount of the credit is 100 percent of the first \$2,000 of qualified education expenses you paid for each eligible student and 25 percent of the next \$2,000 of qualified education expenses you paid for that student. But, if the credit pays your tax down to zero, you can have 40 percent of the remaining amount of the credit (up to \$1,000) refunded to you.

The following expenses do not qualify:

- Room and board
- Transportation
- Insurance
- Medical expenses
- Student fees unless required as a condition of enrollment or attendance
- Same expenses paid with tax-free educational assistance
- Same expenses used for any other tax deduction, credit or educational benefit

Third Party-Qualified education expenses paid by a third party for you or your student claimed as a dependent on your return are considered paid by you for the AOTC and LLC. Payments by third parties include amounts paid by relatives or friends.

If you were under age 24 at the end of the year and the conditions listed below apply to you, you cannot claim any part of the American opportunity credit as a refundable credit on your tax return. Instead, you can claim your allowed credit, only as a nonrefundable credit to reduce your tax. You do not qualify for a refundable American opportunity credit if 1 (a, b, or c), 2, and 3 below apply to you.

1. You were:

- a. Under age 18 at the end of the year, or
- b. Age 18 at the end of the year and your earned income was less than one-half of your support, or
- c. Over age 18 and under age 24 at the end of the year and a full-time student (defined later) and your earned income was less than one-half of your support.

2. At least one of your parents was alive at the end of the year.

3. You are not filing a joint return for the year.