
College Student Tax Credits and Deductions

It is tax season again; time to dig out receipts and W2's and file your taxes. Surprisingly there are a lot of tax deductions and credits available to college students. So although you may have taken out a lot in student loans or you are not happy about the tuition bill you paid last semester, don't despair. There are ways to get some money back if you were a college student last tax year, a parent of one, or even if you paid on your student loans.

HOPE CREDIT

The Hope Credit is a tax credit for eligible students taking college classes. It is usually for students who are in their first two years of college and there is a maximum credit of \$1800. The Hope credit can be claimed for only two tax years for any one student. The credit can only be taken if the student carries at least half of a full-time load for at least one academic period in the year the credit is claimed.

LIFETIME LEARNING CREDIT

The Lifetime Learning Credit is a credit that you can receive on your taxes for taking college classes during an eligible tax year. It is mainly intended to help defray college costs after the first two years, when the Hope credit is no longer allowed. The Lifetime credit is available for an unlimited number of years and without any requirement to carry a certain course load (a big plus for grad students). The Lifetime Learning credit equals 20% of tuition and fees up to \$10,000 for a maximum annual credit of \$2,000.

TUITION AND FEES TAX DEDUCTION

If you paid registration and tuition fees for college last year, then you may be able to deduct the amount paid on your tax return. Depending on your income, you can deduct up to \$4000 per year. This is an "above-the-line" deduction, which means you don't have to itemize in order to take advantage of the break. For parents, the \$4,000 figure is the annual maximum, regardless of how many students may be in your family. In order to claim the tuition and fees deduction, you must complete Form 8917 (PDF).

Other notes: You can not take this deduction if you can be claimed as a dependent by someone else. This is to prevent students from claiming the deduction when their parents' Adjusted Gross Income is too high to qualify.

STUDENT LOAN INTEREST DEDUCTION

If you paid interest on your student loans last year, then you may be eligible to deduct up to \$2500 per year from your income on your current tax return. Of course, there is fine print such as income limitations and other restrictions. This is another above-the-line deductible.

Tax-Free Employer Education Reimbursements

If your employer reimburses you for any classes you take, up to \$5,250 of that income is tax free. Even graduate-level courses qualify for employer reimbursements.

For a more in-depth summary of tax deductions and credits available to college students, see IRS publication 970.

Important Tips to Keep in Mind

- The IRS only allows you to take one education credit or deduction per tax year. For example, you cannot claim the Hope Credit and the Lifetime Learning Credit in the same tax year. You cannot claim the Tuition and Fees Deduction and the Hope Credit in the same tax year.

- Keep all receipts and forms mailed to you. Your college will mail you any forms such as a 1098T (tuition and fees statement) so that you will be able to figure your deductions a little easier when preparing your taxes. You will receive a 1098-E from your loan originator letting you know how much money you paid in interest during the tax year.

- Keep in mind; you cannot claim these credits and deductions using the 1040EZ form. You will have to use a tax form that allows you to itemize your deductions, such as a 1040 or 1040A. If the standard deduction is greater than your total deductions if you itemize, than you may be better off using the standard deduction.

Please keep in mind, that this information is only basic information only. Please check with your tax professional before filing your taxes, for more detailed information on eligibility for these credits and deductions.

Source: www.irs.gov

Note: This info is current for the 2008 tax year.