

Education Tax Incentives (Overview)

American Opportunity Tax Credit (AOTC)

Beginning in 2009, the American Recovery and Reinvestment Act of 2009 renamed the HOPE Scholarship Credit to the American Opportunity Tax Credit (AOTC) and provided enhanced benefits. The 2010 Tax Relief Act extends those enhanced benefits through 2012:

- May be elected during all four years of a taxpayer's, spouse's or dependent's college education.
- Tax credit of up to 100% of the first \$2,000 and 25% of the next \$2,000 of qualified tuition and related expenses paid in 2011 (maximum of \$2,500).
- Phased out as adjusted gross income exceeds \$80,000 for single taxpayers and \$160,000 for married couples filing jointly.
- Assuming certain conditions are met, 40% of the credit is refundable to lower income earners who pay little or no income tax.

Lifetime Learning Credit

- Equal to 20% of the first \$10,000 of qualified tuition and related fees paid for all eligible students in 2011 (maximum of \$2,000).
- Available for undergraduate, graduate-level and course work that improves job skills.
- Phased out as adjusted gross income exceeds \$51,000 for single taxpayers and \$102,000 for married couples filing jointly.
- Either the AOTC or Lifetime Learning Credit may be taken for the same student in any one year, but not both.

Student Loan Interest Deduction

- A deduction for interest due and paid on qualified education loans is available.
- The deduction (\$2,500 in 2011) is made in arriving at adjusted gross income.
- Phased out as adjusted gross income exceeds \$60,000 for single taxpayers and \$120,000 for married couples filing jointly.

College Tuition Deduction

- A \$4,000 above-the-line deduction for qualified higher education expenses, available through 2011.
- Cannot be claimed in the same year as an AOTC or Lifetime Learning Credit for the same student.
- Phased out as adjusted gross income exceeds specified levels.