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Florida Tax Expert in 33606 Explains College Tax Credit

The government has enacted various tax credits that are designed to reduce the cost of higher education for Americans this year. But knowing which tax breaks apply to you is the challenging part. In this article, I shall explain the various college tax breaks available and give details on who should apply for each one.

First, there is the American Opportunity Credit that was enacted under last year's stimulus package. If you are eligible for this credit, it provides up to $2,500 to defray the cost of fees over the first four years of college. This is broken down to 100% of the initial $2,000 of college fees and 25% of the next $2,000. Furthermore, this tax credit is available to you even if you are not paying any taxes. If you are not taxable you can still claim a refund of up to 40% of this credit, which means you can be paid up to $1,000.

The full amount under this credit is given to single taxpayers with Modified Adjusted Gross Income (MAGI) of up to $80,000 per year. On the other hand, those with a MAGI of between $80,000 and $90,000 are eligible for a partial credit. For married couples, the credit will phase out for MAGIs between $160,000 and $180,000.

The American Opportunity Credit allows you to use the tax break to pay for costs of books, course materials and other fees, besides tuition costs. This is especially useful for parents whose children are enrolled in low cost colleges like community colleges but who still incur the same costs for books and course materials.

Who should apply for this tax credit? Every American family with at least one child in college. Lower income families will benefit from the refundable portion of this tax credit while eligible taxpayers will be able to claim this credit to offset their children's college fees. However, bear in mind that if you choose not to claim the American Opportunity Credit for one child, you cannot claim it for any student in your family.

Secondly, there is the Hope and Lifetime Learning Credit that has been in force since the Clinton Administration. This tax credit has lower income limits compared to the American Opportunity Credit. There is an interesting background to the Hope Credit. In 2008, flooding to the Midwest caused the temporary shutdown of some colleges and universities in that area. In a humanitarian effort to help these colleges to recover, Congress doubled the Hope credit to a maximum of

$3,600 for students in the colleges and universities affected by the flooding in 2009. This credit is to be applied to the first 2 years of undergraduate studies.

Likewise, Congress also increased the Lifetime Learning Credit for students who attended college in the affected areas to 40% of the first $10,000 of eligible college fees, up to a maximum of $4,000. This credit is not limited to only a part of the college course but is available for the entire 4 years of undergraduate studies. However, you can only claim it once per tax return regardless of the number of college-going children you have.

The Hope and Lifetime Learning Credit phases out for single taxpayers with a MAGI of between $50,000 and $60,000. For married taxpayers, it is between $100,000 and $120,000. You cannot claim for both the American Opportunity Credit and Hope or Lifetime Learning Credits for the same student at the same time.

Who should claim this tax credit? Parents who meet the income requirements with children studying in colleges or universities in the affected Midwest areas. For a list of affected counties get IRS Publication 4492-B from the IRS website, www.irs.gov.

Finally, there is the tuition and fees deduction tax break. This represents a deduction from your taxable income of up to $4,000 to offset tuition and fees. It is available in full for single taxpayers with a MAGI of up to $65,000 and phases out completely by $80,000. For married couples, it phases out between $130,000 and $160,000.

If you claim for the American Opportunity Credit, Hope or Lifetime Learning credits, you are not allowed to claim for this tuition and fees deduction. In such a case, it is fairly easy to choose. It would be more advantageous to choose the credit than the tuition and fees deduction. This is because the tuition and fees deduction is a reduction of your taxable income by up to $4,000 whereas the tax credits are a reduction on the actual tax amount that you are liable to pay. Hence, although the amount of the deduction is larger at $4,000, the credit of $2,500 is more beneficial.

Who should then claim for this tax break? Parents with children in post graduate studies will gain from the tuition and fees deduction break. The other tax credits are only for undergraduate studies.

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