

# 2008 Tax Benefits for Education Expenses

Many people are unaware the federal government offers tax benefits for education-related expenses. Significant tax benefits may apply to taxpayers who are repaying student loans, saving for post-secondary education, or currently paying for post-secondary education. Therefore, it is important to keep organized student loan records to take advantage of these tax benefits.

## Education-related tax benefits include:

- Hope Scholarship Credit
- Lifetime Learning Credit
- Student Loan Interest Deduction
- Tuition and Fees Deduction

## Hope Scholarship Credit

Taxpayers may be eligible to claim a non-refundable Hope Scholarship Credit against their federal income taxes. The credit may be claimed for qualified tuition and related expenses for EACH student in the taxpayer's family, which includes the taxpayer, a spouse or any eligible dependents. The student must be enrolled at least half-time in one of the first two years of qualifying post-secondary education, in a degree, certificate or other recognized credentialing program.

- Taxpayers may claim a 100% credit per eligible student for the first \$1,200 of qualified education expenses and a 50% credit for the second \$1,200 of education expenses paid, resulting in an annual maximum credit of \$1,800 for each qualifying student for 2008\*.

### Income Restrictions for the Hope Scholarship Credit:

The amount of your Hope Scholarship Credit is gradually reduced (phased out) if your modified adjusted gross income (MAGI) is between \$48,000 and \$58,000 (\$96,000 and \$116,000 if you file a joint return). Therefore, you cannot claim a credit if your MAGI is \$58,000 or more (\$116,000 or more if you file a joint return).

## Lifetime Learning Credit

The lifetime learning credit, available to students or their families, is for undergraduate, graduate, or professional study. The credit may be claimed for qualified tuition and related expenses paid for students in the taxpayer's family, which includes the taxpayer, a spouse or any eligible dependents, who are enrolled in one or more courses at an eligible educational institution. Individuals may claim the credit as long as their filing status is any filing status except married filing separately and no one else can claim them as a dependent. Only one credit, either the Hope Scholarship Credit or the lifetime learning credit, can be claimed for each student in any given year.

- The amount of the lifetime learning credit is 20% of the first \$10,000 of qualified tuition and related expenses paid for all eligible students, resulting in a maximum credit of \$2,000 for 2008\*.

### Income Restrictions for the Lifetime Learning Credit:

The amount of your lifetime learning credit is gradually reduced (phased out) if your modified adjusted gross income (MAGI) is between \$48,000 and \$58,000 (\$96,000 and \$116,000 if you file a joint return). Therefore, you cannot claim a credit if your MAGI is \$58,000 or more (\$116,000 or more if you file a joint return).

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## Education Loan Interest Deduction

The education loan interest deduction can reduce the amount of your taxable income by up to \$2,500. Taken as an adjustment to income, you can claim a deduction on interest payments paid on qualified education loans even if you do not itemize deductions on Schedule A (Form 1040). The loan must have been borrowed while the student was enrolled at least half-time in a program leading to a degree, certificate or other recognized educational credential.

**When calculating your deduction, remember to include the following as education loan interest:**

- Loan origination fees (usually a percentage of the amount borrowed).
- Capitalized interest (the unpaid interest on an education loan that is added to the loan's outstanding principal balance).
- Interest on revolving lines of credit (provided the line of credit is used only to pay for qualified education expenses).
- Interest on refinanced education loans (both consolidated and collapsed loans).

**Generally, you can claim this deduction if all four of the following requirements are met:**

- Your filing status is any filing status other than married filing separately.
- No one else is claiming an exemption for you on his or her tax return.
- You paid interest on a qualified education loan.
- You are legally obligated to pay interest on a qualified education loan.

**Income Restrictions for Education Loan Interest Deduction:**

In 2008 the amount of your education loan interest deduction is gradually reduced (phased out) if your modified adjusted gross income (MAGI) is between \$55,000 and \$70,000 (\$115,000 and \$145,000 if you file a joint return). Therefore, you can not claim this deduction if your MAGI is \$70,000 or more (\$145,000 or more if you file a joint return).

## Tuition and Fees Deduction

Taxpayers may deduct payments of qualified tuition and related expenses paid during the year\*. The tuition and fees deduction can reduce the amount of your taxable income by up to \$4,000. Taken as an adjustment to your income, you can claim this deduction even if you do not itemize deductions on Schedule A (Form 1040). This deduction may be beneficial to you if you cannot take either the Hope Scholarship Credit or lifetime learning credit because your income is too high.

**Generally, you can claim this deduction if all of the following requirements are met:**

- Your filing status is any filing status other than married filing separately.
- You pay qualified education expenses of higher education for an eligible student.
- The eligible student is yourself, your spouse, or your dependent for whom you claim an exemption on your tax return.
- Another person cannot claim an exemption for you as a dependent on his or her tax return.
- No Hope or lifetime learning credit has been claimed in 2008 with respect to expenses of the student for whom the qualified education expenses were paid.
- If you were a nonresident alien for any part of the year, you must have elected to be treated as a resident alien for tax purposes.

**Income Restrictions for Tuition and Fees Deduction:**

In 2008 the maximum deduction amount of qualified education expenses is \$4,000 for taxpayers with a modified adjusted gross income of \$65,000 or less (\$130,000 or less for married taxpayers filing jointly). If your MAGI is greater than \$65,000 but not more than \$80,000 (greater than \$130,000 but not more than \$160,000 if married filing jointly) your maximum tuition and fees deduction will be \$2,000. No tuition and fees deduction will be allowed if your MAGI is more than \$80,000 (\$160,000 if married filing jointly).

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\* The definition of qualified education expenses for the tuition and fees deduction is expanded for students attending an eligible educational institution in Midwestern disaster areas in the states of Arkansas, Illinois, Indiana, Iowa, Missouri, Nebraska, and Wisconsin. Visit the IRS website for more information - <http://www.irs.gov/publications/p970/ch06.html>.

The benefits taken on 2008 taxes are for education expenses paid in 2008, but the academic period can extend into the first 3 months of 2009. This flyer is intended to provide general information on higher education tax benefits. It is not to be used as tax advice and should not be relied upon in the preparation of a tax return. IRS rules and policy nuances may be complex in some areas. Taxpayers should consult with a competent tax advisor or the IRS to determine how their own circumstances are affected. Charter One is a division of RBS Citizens, N.A. CS#EFFL10039M0