



NYS Training for Tax Preparers

Federal Credits

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Federal Credits

Federal Education Credits

There are two federal education credits:

- American Opportunity Credit
- Lifetime Learning Credit

Both credits can be claimed using federal Form 8863, *Education Credits*.



American Opportunity Credit

The American Opportunity Credit is a tax credit that covers:

- 100% of the first \$2,000 spent on tuition, fees and course materials, and
- 25% of the next \$2,000.

The full credit can be available to individuals whose modified adjusted gross income is \$80,000 or less (\$160,000 or less for married couples filing jointly). The credit can be as much as \$2,500 per undergraduate student. Up to 40% of the credit is refundable.

The American Opportunity Credit can be claimed for no more than four years per student, including any years that the former Hope Scholarship credit was used.



American Opportunity Credit

To claim this credit, taxpayers must meet certain requirements:

- Can use any filing status **other than** Married Filing Separately
- Cannot be claimed as a dependent on another person's tax return
- For any part of the tax year if the taxpayer or their spouse is nonresident alien, they must elect to be a resident alien for tax purposes
- Must have a modified adjusted income less than \$90,000 (\$180,000 if filing a joint return)



American Opportunity Credit

In addition, the credit is only available for qualified education expenses paid with regard to an eligible student during the tax year.

An eligible student is:

- The taxpayer
- The taxpayer's spouse
- Someone who can be claimed as a dependent on the taxpayer's return



American Opportunity Credit

Qualified eligible expenses must meet the following requirements:

- Cannot be used to claim a deduction or another credit
- Cannot have been paid entirely with a tax-free scholarship, grant, or employer-provided educational assistance
- Cannot have been refunded to another taxpayer
- Must be from an eligible institution

Form 1098-T must be submitted with the return. The qualified expenses will be reduced by the amount of any tax-free education assistance the taxpayer receives. Some tax-free education assistance will be considered a refund.



American Opportunity Credit

Students are ineligible for the credit if **any** of the following are true:

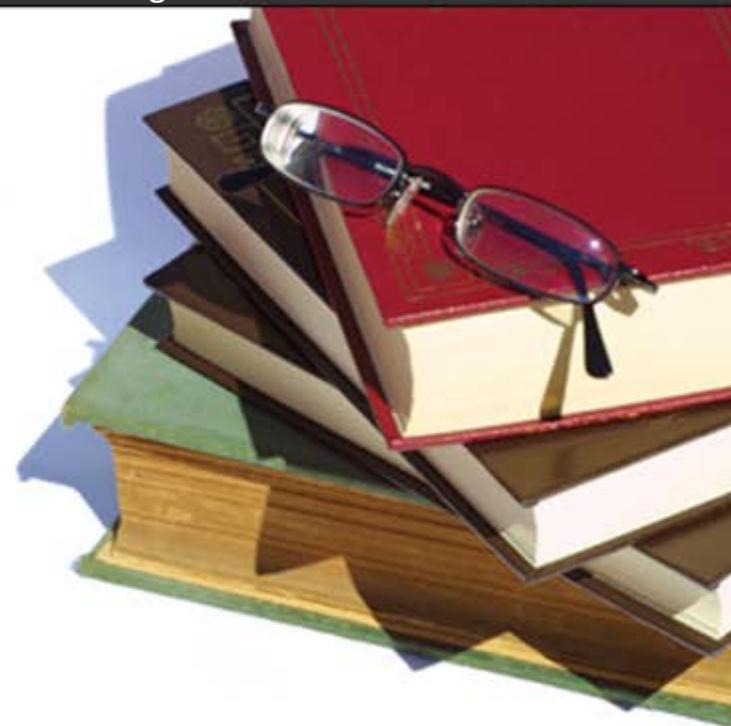
- They completed the first four years of postsecondary education **before** the beginning of the tax year.
- They claimed the American Opportunity Credit or Hope Credit (or a combination of both) in at least four prior tax years.
- They were not enrolled at least half-time in a program leading to a degree or certificate for at least one academic period during the tax year.
- They were convicted of felony possession or distribution of a controlled substance in a state or federal court during the tax year.



Lifetime Learning Credit

The Lifetime Learning Credit is for post-secondary students and can be as much as \$2,000.00 per return. The credit is non-refundable and limited to 20% of the first \$10,000 paid.

The course must be either part of a postsecondary degree program or taken by the student to acquire or improve job skills. There are no time limitations.





Lifetime Learning Credit

To claim this credit, taxpayers must meet certain requirements:

- Can use any filing status **other than** Married Filing Separately
- Cannot be claimed as a dependent on another person's tax return
- If the taxpayer or their spouse is nonresident alien for any part of the tax year, they must elect to be a resident alien for tax purposes
- Must have a modified adjusted income less than \$63,000 (\$127,000 if filing a joint return)
- Must have some tax liability on their return (this is a non-refundable credit)



Lifetime Learning Credit

In addition, the credit is only available for qualified education expenses paid with regard to an eligible student during the tax year.

The eligible student is:

- The taxpayer
- The taxpayer's spouse
- Someone who can be claimed as a dependent on the taxpayer's return



Lifetime Learning Credit

Qualified eligible expenses must meet the following requirements:

- Cannot be used to claim a deduction or another credit
- Cannot have been paid entirely with a tax-free scholarship, grant, or employer-provided educational assistance
- Cannot have been refunded to another taxpayer
- The qualified expenses will be reduced by the amount of any tax-free education assistance the taxpayer receives. Some tax-free education assistance will be considered a refund.
- The qualified expenses must be from an eligible educational institution
- Form 1098-T must be submitted with the tax return



Eligibility for Both Credits

- Credits are for postsecondary education only.
- Credits cannot be doubled (only one credit or deduction can be used for any one student)
- It is possible to claim both credits or a deduction on a single return, but only if you have two or more students.
- The credits are only for educational expenses at an eligible educational institution.
- Cannot file Married Filing Separately.
- Eligible student must be taxpayer's dependent on the return.
- Eligible student cannot be claimed as a dependent on another taxpayer's return.



Credit Recapture

In some cases, taxpayers may be reimbursed for expenses after they filed a return claiming the American Opportunity Credit or the Lifetime Learning Credit.

If that happens, taxpayers need only reduce the amount of the credit they claim in the subsequent year. There is no need to amend the return for the year in which the credit was claimed.



Form 1098-T, *Tuition Statement*

Taxpayers should receive Form 1098-T from each institution they or their dependents attend. This must be filed with their return.

The image shows a tilted view of Form 1098-T, Tuition Statement. The form includes the following sections and fields:

- Top Left:** VOID CORRECTED
- Top Right:** OMB No. 1545-1574
- Center:** Form 1098-T
- Right Side:** Tuition Statement, Copy C For Filer, For Privacy Act and Paperwork Reduction Act Notice, see the 2012 General Instructions for Certain Returns.
- Fields:**
 - 1 Payments received for qualified tuition and related expenses
 - 2 Amounts billed for qualified tuition and related expenses
 - 3 Check if you have changed your reporting method for 2012
 - 4 Adjustments made for a prior year
 - 5 Scholarships or grants
 - 6 Adjustments to scholarships or grants for a prior year
 - 7 Check this box if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2013
 - 8 Check if at least half-time student
 - 9 Check if a graduate student
 - 10 Ins. contract reimb./refund
- Bottom:** Department of the Treasury - Internal Revenue Service



Federal Credits

To Learn More

Publication 970: Tax Benefits for Education

- <http://www.irs.gov/pub/irs-pdf/p970.pdf>

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Form 8863: Education Credits

- [Form 8863, Education Credits \(American Opportunity and Lifetime Learning Credits\)](#)

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- <http://www.irs.gov/pub/irs-pdf/i8863.pdf>



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