



Educational Credits

High education is expensive. For many years, taxpayers have looked for ways to help minimize the cost of these programs. Finally, Congress has heard the plea and found a few ways to provide some relief. The new education Credits, first available for expenses incurred in 1998, are the Hope Credit and the Lifetime Learning Credit.

The credits are available for qualifying expenses paid to eligible post-secondary educational institutions for taxpayers, their spouses, and/or their dependents.

Hope Credit

The Hope Credit is available for expenses paid after December 31, 1997 for academic periods beginning after that date. It is available for an eligible student who has not completed the first two years of post-secondary education as of the start of the tax year, is enrolled in a degree or certification program on at least a half-time basis, and has not been convicted of a felony in connection with a controlled substance.

The credit is 100% of the first \$1,000, plus 50% of the next \$1,000 of qualifying expenses. The minimum is \$1,500 per eligible student, subject to income limitations (discussed later).

Lifetime Learning Credit

The Lifetime Learning Credit is available for expenses paid after June 30, 1998 for academic periods beginning after that date. The credit is 20% of the first \$5000 of qualifying expenses for all eligible students in the family. The maximum credit is \$1,000 per family, subject to income limitations (discussed later).

The credit is allowed for one or more courses taken by the student during the year. It is allowed for any and all post-secondary education, including graduate courses, for any number of years.

Definitions

Qualifying Expenses are those amounts spent for qualified tuition and related expenses required for enrollment or attendance at an eligible educational institution. Fees for course-related books, supplies and equipment and student activity fees are included *only* if the fees

must be paid to the institution as a condition of enrollment or attendance. These expenses do not include insurance, medical expenses, room and board, transportation, or other personal living expenses (even if a student is required to live on campus).

Qualifying Individuals include you, your spouse, and any other dependent claimed on your tax return for the year.

Eligible Educational Institutions include any accredited college, university, vocational school, or other accredited post-secondary educational institution eligible to participate in a student aid program administered by the Department of Education. This includes most (but not all) accredited, public, nonprofit, and privately owned institutions. If you have any doubts, the institution will be able to tell you if it is eligible.

Academic Period includes a semester, trimester, quarter, or any other designated period of instructional time. It begins on the first day of classes and does not include orientation, counseling, or vacation periods.

Income Limits will cause the educational credits to be reduced if your modified adjusted gross income is between \$47,000 and \$57,000 (\$94,000 and \$114,000 if you are married filing jointly) and eliminated if your income exceeds the maximum.

No Double Benefit

If you claim a deduction (as a business expense) for a higher education expense, you cannot claim the credit for the same amount, so your tax practitioner will choose the one that gives you the greater benefit.

Also, if you pay qualified expenses with certain tax-free funds (such as scholarships, grants, employer or VA assistance benefits), you cannot claim a credit for those expenses. In addition, if the student makes a tax free withdrawal from an educational IRA in any year, the educational credit cannot be claimed unless the student waives the tax-free treatment.

Which Credit to Claim

For each student, only one credit or a tax-free withdrawal from an education IRA can be used in any tax year. Generally, you will want to use the Hope Credit for the first two years and the Lifetime Learning credit thereafter. If you have qualifying expenses for more than one student in a year, you can choose the credit on a per-student basis.

Who Can Claim the Credit?

In any given year, only one person can claim the education credits for a student's expense. If you claim the student as a dependent on your tax return, only you can claim the credit. If the student claims his or her own exemption, he or she is the one who claims the credit.

Not every item in our library will be applicable to your situation. If you need further advice, please feel free to give us a call any time at (608) 756-5354. Summit Accounting Group Inc. of Janesville, Wisconsin



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