



TAX CREDITS AND DEDUCTIONS FOR COLLEGE TUITION

If you or one of your dependents are taking college classes, you will likely receive some form of reduction in your tax bill. The amount of this reduction will depend on your income, the cost of tuition as well as what degree you are pursuing. There are four primary credits and deductions that apply to college expenses

American Opportunity Tax Credit

By far the most beneficial tax credit available for higher education expenses is the American Opportunity Tax Credit (AOTC). In order to qualify for the AOTC you need to be enrolled in classes at least half-time, be pursuing an associates or bachelors degree, and your adjusted gross income must be below \$90,000 (\$180,000 if married filing a joint return). Additionally, you can only claim this credit for the first 4 years of college education, meaning you cannot take the credit for a masters degree or a fifth year of undergraduate study. The credit can reduce your tax bill by up to \$2,500 per year and is calculated as 100% of the first \$2,000 in qualified expenses and 25% of the next \$2,000 in expenses. This means that you only need \$4,000 in qualified expenses to reap the full benefit of the credit.

Lifetime Learning Credit

If you do not qualify for the AOTC, you may still qualify for the Lifetime Learning Credit (LLC). The LLC does not have a limit on the number of years it can be claimed, but the income limits are stricter than the AOTC. You cannot claim the LLC if your income is greater than \$65,000 or \$130,000 if married filing a joint return. The LLC can reduce your tax bill by up to \$2,000 per year and is calculated as 20% of the first \$10,000 in qualified expenses.

Tuition and Fees Deduction

This is the least common deduction claimed, mainly because it is generally the least beneficial. The tuition and fees deduction is mostly used by someone who does not qualify for the AOTC due to already claiming it in 4 previous years and does not qualify for the LLC due to their income being too high. The tuition and fees deduction has the same income limitations as the AOTC meaning there is a small window where it can be utilized after the LLC is phased out. This deduction allows you to deduct up to \$4,000 of qualified expenses from your taxable income. This is different from the two previous credits as it does not directly reduce your tax bill, but rather reduces the income that is subject to tax, meaning its monetary value is based on whatever tax bracket you are in.



Student Loan Interest Deduction

This deduction will most likely be relevant to you after you have already left school. The student loan interest deduction allows you to reduce your taxable income by the amount of interest you pay on your student loans up to a max of \$2,500 per year. The deduction is also limited by your adjusted gross income, and cannot be taken when your income exceeds \$80,000 or \$160,000 if married filing a joint return.

What Are "Qualified Expenses"?

For the American Opportunity Credit, the Lifetime Learning Credit, and the Tuition and Fees Deduction you need to have "qualified expenses." Qualified expenses include tuition that you pay as well as any fees that are required as a condition of enrollment. They do not include expenses such as room and board or commuting expenses. In the case of the American Opportunity Credit they also include necessary external expenses such as textbooks or the cost of a computer if it is required and used exclusively for school.

These expenses must be paid in the year the credit is claimed, regardless of when they are billed. You may receive a statement from the school showing the amount they billed you during the year but you can only claim the amount that was actually paid during the year (note that taking out a student loan to cover expenses qualifies as paying the expenses for the purpose of taking these credits).