

# Leslie A. Cesario, Ltd.

## Monthly Newsletter

### Back to School? Tax Breaks May Help to Pay the Cost!

#### Article Highlights:

- Education Credits
- American Opportunity Tax Credit
- Lifetime Learning Credit
- Qualified Expenses
- Qualified Educational Institutions
- 1098-T

Now that summer is over, it is time for many young adults to head back to college or university, and it is time for their parents or family members to dig into their pockets to help pay for that schooling.

Paying for education can be financially challenging for many families. However, tuition and related expenses paid for higher education can qualify for one of two tax credits, which will lower the income tax burden for the individual who claims the exemption for the student. For example, if the student were claimed as a dependent on the parents' return, the parents would claim the credit, but if the student filed independently, he or she would get the credit. This is true regardless of who actually pays the tuition and related expenses.

**American Opportunity Tax Credit (AOTC)** – The AOTC provides a credit of up to \$2,500 per year per eligible student. Generally, tax credits are non-refundable, meaning they can only be used to offset any tax liability the taxpayer may have for the year. However, up to 40% of the AOTC is refundable, even when the taxpayer has no tax liability. Thus, it can result in a refund of as much as \$1,000 (40% of \$2,500).

The credit is for 100% of the first \$2,000 of tuition and related expenses and 25% of the next \$2,000 of qualifying expenses. However, the AOTC is only allowed for four years of post-secondary education. It is also determined on a per student basis and phases out for higher-income taxpayers. The student must be enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential for at least one academic period beginning in the tax year of the credit.

**Lifetime Learning Credit (LLC)** – The LLC is a non-refundable credit worth up to \$2,000 per year, and there is no limit on the number of years that the LLC can be claimed. Unlike the AOTC, there is no "half-time student" requirement, and single courses can qualify. The credit is 20% of the cost of tuition and related expenses. However, while the AOTC is determined on a per student basis, the LLC is based upon the tax family's qualified education expenses for the year. Where a student qualifies for the more beneficial AOTC, that student's expenses cannot be used for the LLC.

There are additional requirements that apply to both credits:

- Qualified expenses – Qualified expenses include the costs you pay for tuition, fees, and other related expenses for an eligible student to enroll at or attend an eligible educational institution.
- Eligible educational institutions – Eligible institutions generally include any accredited public, nonprofit, or proprietary post-secondary institution eligible to participate in the student aid programs administered by the Department of Education. This includes most colleges and universities. Vocational schools or other

post-secondary schools may also qualify. If you aren't sure if the student's school is eligible, ask the school if it is an eligible educational institution.

- Form 1098-T – In most cases, you (or the student) should receive Form 1098-T, Tuition Statement, from the school reporting the qualifying expenses to the IRS and to you. The amount shown on the form may be either (1) the amount you paid to the school for qualifying tuition and related expenses, or (2) the amount billed by the school for qualifying tuition and related expenses. Therefore, the amount shown on the form may be different from the amount eligible for the credit. Don't forget that you can only claim an education credit for the qualifying tuition and related expenses that you paid in the tax year and not just the amount the school billed. There is a provision that allows the tuition for the first three months of the next year to be prepaid and deducted on the tax return for the year of payment. However, prepaid tuition cannot be deducted in the subsequent year.

There are other education tax benefits available as well, such as the education loan interest deduction and savings bond interest exclusion. If you are reading this article so you can plan for the future, there are also tax-advantage education savings plans available – the Coverdell and Sec 529 plans.

If you would like to learn how the education credits or other tax benefits might apply to your particular circumstances, please give this office a call.

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