Making the most of college tax breaks

Some parents spend years saving for their children's college education, while others scramble to search out scholarships and loans at the last minute. No matter which approach you've taken, the Minnesota Society of CPAs (MNCPA) advises that there are a number of tax breaks available for qualifying taxpayers paying education bills. Don't miss out on this opportunity to offset your education costs.

Great tax credits

Tax credits are a valuable tax break because they reduce the amount of tax you owe. That generally has a bigger impact than a tax deduction, which simply lowers the amount of your taxable income. To qualify for an education tax credit, you must be a taxpayer who has paid taxes in the most recent year. In 2008, families who qualified for one program--the Hope Scholarship Credit--could receive a tax credit up to $1,800 for each eligible dependent attending their first two years of college. That's broken down into a 100% credit for the first $1,200 of qualified education expenses for an eligible student, and 50 percent of the next $1,200 of qualified expenses for that student.

To understand how it works, assume that a family had one dependent who was in her first year of college, and that they owed $5,000 in taxes for the year. If they qualify for the highest credit amount, they would be able to reduce their taxes owed by $1,800, to $3,200.

The lifetime learning credit

The Lifetime Learning Credit is another popular tax break that is different in some important ways from the Hope Credit. While students must take on a certain minimum college workload to qualify for the Hope Credit, it's possible to qualify for the Lifetime Learning Credit while taking one or more courses to improve or gain new job skills. The Lifetime Credit can amount to as much as 20 percent of the first $10,000 of qualified educational expenses. So, those who qualify can receive as much as $2,000 per year for the total qualified expenses paid for yourself, your spouse or your dependents. The Lifetime Credit applies for all the years of postsecondary education or for courses taken to enhance job skills, while the Hope Credit is only available for the first two years of postsecondary education.

Income limits do apply

With both the Hope and Lifetime Learning Credits, the credit is phased out for single people with adjusted gross income (AGI) over $48,000 and eliminated altogether if your income is over $58,000. For married couples filing jointly it is phased out for those with AGI between $96,000 and $116,000. (It is not available at all for those who are married but file separately.) The credit you receive also will vary based on the total tuition and expenses paid and whether the student has received any scholarships or other allowances. In addition, you cannot claim both the Hope Scholarship and Lifetime Learning Credits for the same student in the same year.

Remember deductions, too

It's also possible for qualifying taxpayers to deduct qualifying higher education expenses from their gross income to arrive at adjusted gross income. Depending on your gross income and the total qualifying expenses, you can deduct up to $4,000 of tuition and fees paid to an eligible postsecondary institution for yourself, your spouse or a dependent claimed on your tax return.

Get more information

To get more information on education-related tax breaks, please consult **Peter Deng & Associates** about all your family's financial needs.