Form **8863**

Department of the Treasury
Internal Revenue Service (99)

Education Credits (Hope and Lifetime Learning Credits)

▶ See instructions to find out if you are eligible to take the credits.
▶ Attach to Form 1040 or Form 1040A.

OMB No. 1545-0074

2008

Attachment Sequence No. **50**

Name(s) shown on return

Your social security number

Caution: • *You **cannot** take the Hope credit and the lifetime learning credit for the **same student** in the same year.*

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Part I Hope Credit. Caution: *You **cannot** take the Hope credit for more than **2** tax years for the **same student.***

1	(a) Student's name (as shown on page 1 of your tax return) First name / Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). **Do not** enter more than $2,400 for each student.	(d) Enter the **smaller** of the amount in column (c) or $1,200	(e) Add column (c) and column (d)	(f) Enter one-half of the amount in column (e)

2	**Tentative Hope credit.** Add the amounts on line 1, column (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶	2	

Part II Lifetime Learning Credit

3	(a) Student's name (as shown on page 1 of your tax return) First name / Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions)

4	Add the amounts on line 3, column (c), and enter the total	4	
5	Enter the **smaller** of line 4 or $10,000	5	
6	**Tentative lifetime learning credit.** Multiply line 5 by 20% (.20) and go to Part III	6	

Part III Allowable Education Credits

7	Tentative education credits. Add lines 2 and 6			7	
8	Enter: $116,000 if married filing jointly; $58,000 if single, head of household, or qualifying widow(er)	8			
9	Enter the amount from Form 1040, line 38,* or Form 1040A, line 22	9			
10	Subtract line 9 from line 8. If zero or less, **stop;** you cannot take any education credits	10			
11	Enter: $20,000 if married filing jointly; $10,000 if single, head of household, or qualifying widow(er)	11			
12	If line 10 is equal to or more than line 11, enter the amount from line 7 on line 13 and go to line 14. If line 10 is less than line 11, divide line 10 by line 11. Enter the result as a decimal (rounded to at least three places)			12	× .
13	Multiply line 7 by line 12 ▶			13	
14	Enter the amount from Form 1040, line 44, or Form 1040A, line 28 (minus any alternative minimum tax included on Form 1040A, line 28)			14	
15	Enter the total, if any, of your credits from Form 1040, lines 47 and 48, or Form 1040A, lines 29 and 30	15			
16	1040 filers: Enter the amount from Form 6251, line 31 (see instructions) 1040A filers: Enter the amount, if any, from the Alternative Minimum Tax Worksheet, line 20 (see instructions)	16			
17	Add lines 15 and 16			17	
18	Subtract line 17 from line 14. If zero or less, **stop**. You cannot take any education credits ▶			18	
19	**Education credits.** Enter the smaller of line 13 or line 18 here and on Form 1040, line 49, or Form 1040A, line 31 ▶			19	

* If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see Pub. 970 for the amount to enter.

General Instructions

What's New

The education credits are no longer allowed against the alternative minimum tax and a new tax liability limit applies. This limit is figured on lines 14 through 18 of Form 8863.

Purpose of Form

Use Form 8863 to figure and claim your education credits. The education credits are:

- The Hope credit, and
- The lifetime learning credit.

These credits are based on qualified education expenses paid to an eligible postsecondary educational institution. See *Qualified Education Expenses* and *Eligible Educational Institution,* later, for more information.

Who Can Take the Credits

You may be able to take the credits if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. The credits are based on the amount of qualified education expenses paid for the student in 2008 for academic periods beginning in 2008 and the first 3 months of 2009.

Qualified education expenses must be reduced by any expenses paid directly or indirectly using tax-free educational assistance. See Tax-Free Educational Assistance and Refunds of Qualified Education Expenses *on this page.*

Note. If a student is claimed as a dependent on another person's tax return, only the person who claims the student as a dependent can claim the credits for the student's qualified education expenses. If a student is not claimed as a dependent on another person's tax return, only the student can claim the credits.

Generally, qualified education expenses paid on behalf of the student by someone other than the student (such as a relative) are treated as paid by the student. Also, qualified education expenses paid (or treated as paid) by a student who is claimed as a dependent on your tax return are treated as paid by you. Therefore, you are treated as having paid expenses that were paid from your dependent student's earnings, gifts, inheritances, savings, etc.

You cannot take the education credits if any of the following apply.

- You are claimed as a dependent on another person's tax return, such as your parent's return (but see the *Note* above).
- Your filing status is married filing separately.
- Your adjusted gross income on Form 1040, line 38, or Form 1040A, line 22, is (a) $116,000 or more if married filing jointly, or (b) $58,000 or more if single, head of household, or qualifying widow(er).
- You (or your spouse) were a nonresident alien for any part of 2008 and the nonresident alien did not elect to be treated as a resident alien.

Additional Information

See Pub. 970, Tax Benefits for Education, for more information about these credits.

Rules That Apply to Both Credits

Qualified Education Expenses

Generally, qualified education expenses are amounts paid in 2008 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, by credit card, or with borrowed funds.

Qualified education expenses do not include amounts paid for:

- Room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- Course-related books, supplies, equipment, and nonacademic activities, except for fees required to be paid to the institution as a condition of enrollment or attendance.
- Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student acquire or improve job skills.

You should receive Form 1098-T, Tuition Statement, from the college or university reporting either payments received in box 1 or amounts billed in box 2. However, the amounts in boxes 1 and 2 of Form 1098-T may be different than what you actually paid. On Form 8863, lines 1 and 3, enter only the amounts you paid in 2008 for qualified expenses. See chapters 2 and 3 of Pub. 970.

If you or the student take a deduction for higher education expenses, such as on Schedule A or Schedule C (Form 1040), you cannot use those expenses when figuring your education credits.

Any qualified expenses used to figure the education credits cannot be taken into account in determining the amount of a distribution from a Coverdell ESA or a qualified tuition program that is excluded from gross income.

Tax-Free Educational Assistance and Refunds of Qualified Education Expenses

Tax-free educational assistance includes a tax-free scholarship or Pell grant or tax-free employer-provided educational assistance. See Pub. 970 for specific information.

You must reduce the total of your qualified education expenses by any tax-free educational assistance and by any refunds of your expenses. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before you file your tax return, reduce your qualified education expenses by the amount received and figure your education credits using the reduced amount of qualified expenses. If the refund or tax-free assistance is received after you file your return for the year in which the expenses were paid, you must recapture the excess credit. You do this by figuring the amount by which your education credits would have been reduced if the refund or tax-free assistance had been received in the year for which you claimed the education credits. Include that amount as an additional tax for the year the refund or tax-free assistance was received.

Example. You paid $8,000 tuition and fees in December 2007, and your child began college in January 2008. You filed your 2007 tax return on February 2, 2008, and claimed a lifetime learning credit of $1,600. After you filed your return, your child dropped two courses and you received a refund of $1,400. You must refigure your 2007 lifetime learning credit using $6,600 of qualified expenses instead of $8,000. The refigured credit is $1,320. You must include the difference of $280 on your 2008 Form 1040, line 44, or Form 1040A, line 28. Also, enter "$280" and "ECR" on the dotted line next to line 44 (if filing Form 1040) or line 28 (Form 1040A).

Prepaid Expenses

Qualified education expenses paid in 2008 for an academic period that begins in the first 3 months of 2009 can be used only in figuring your 2008 education credits. For example, if you pay

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$2,000 in December 2008 for qualified tuition for the 2009 winter quarter that begins in January 2009, you can use that $2,000 in figuring your 2008 education credits (if you meet all the other requirements).

CAUTION *You cannot use any amount paid in 2007 or 2009 to figure your 2008 education credits.*

Eligible Educational Institution

An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) college, university, vocational school, or other postsecondary institution. Also, the institution must be eligible to participate in a student aid program administered by the Department of Education. Virtually all accredited postsecondary institutions meet this definition.

Specific Instructions

Part I
Hope Credit

You may be able to take a credit of up to $1,800 for qualified education expenses (defined earlier) paid for each student who qualifies for the Hope credit. The Hope credit equals 100% of the first $1,200 and 50% of the next $1,200 of qualified expenses paid for each eligible student. You can take the Hope credit for a student if all of the following apply.

- As of the beginning of 2008, the student had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore years of college), as determined by the eligible educational institution. For this purpose, do not include academic credit awarded solely because of the student's performance on proficiency examinations.
- The student was enrolled in 2008 in a program that leads to a degree, certificate, or other recognized educational credential.
- The student was taking at least one-half the normal full-time workload for his or her course of study for at least one academic period beginning in 2008.
- The Hope credit was not claimed for that student's expenses in more than one prior tax year.
- The student has not been convicted of a felony for possessing or distributing a controlled substance.

TIP *If a student does not meet all of the above conditions, you may be able to take the lifetime learning credit for part or all of that student's qualified education expenses instead.*

Line 1

Complete columns (a) through (f) on line 1 for each student who qualifies for and for whom you elect to take the Hope credit.

Note. If you have more than three students who qualify for the Hope credit, enter "See attached" next to line 1 and attach a statement with the required information for each additional student. Include the amounts from line 1, column (f), for all students in the total you enter on line 2.

Column (c). For each student, enter the amount of qualified education expenses remaining after reduction by certain tax-free amounts and refunds, as explained earlier. The expenses must have been paid for the student in 2008 for academic periods beginning after 2007 but before April 1, 2009, as explained earlier under *Prepaid Expenses.* If the student's expenses are more than $2,400, enter $2,400. You may use the worksheet that follows to figure the correct amount to enter in column (c).

Qualified Education Expenses Worksheet for Column (c)
(Do a separate worksheet for each student)

1. Total qualified education expenses . . . . _____
2. Less adjustments:
   a. Tax-free educational assistance . _____
   b. Refunds of qualified education expenses . . . . . _____
   c. Other adjustments (see Pub. 970) . _____
3. Total adjustments (add lines 2a–2c) . . . . . _____
4. Qualified education expenses (subtract line 3 from line 1). Enter here and on Form 8863, Part I or II, column (c) . . . . . _____

Part II
Lifetime Learning Credit

The maximum lifetime learning credit you can claim on your return for the year is $2,000, regardless of the number of students for whom you are claiming the credit.

CAUTION *You cannot take the lifetime learning credit for any student for whom you are taking the Hope credit.*

Line 3

Complete columns (a) through (c) for each student for whom you are taking the lifetime learning credit.

Note. If you are taking the lifetime learning credit for more than three students, enter "See attached" next to line 3 and attach a statement with the required information for each additional student. Include the amounts from line 3, column (c), for all students in the total you enter on line 4.

Column (c). For each student, enter the amount of qualified education expenses remaining after reduction by certain tax-free amounts and refunds, as explained earlier. The expenses must have been paid for the student in 2008 for academic periods beginning after 2007 but before April 1, 2009, as explained earlier under *Prepaid Expenses.* You may use the worksheet on this page to figure the correct amount to enter in column (c).

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For the estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from you. See the instructions for your income tax return.

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