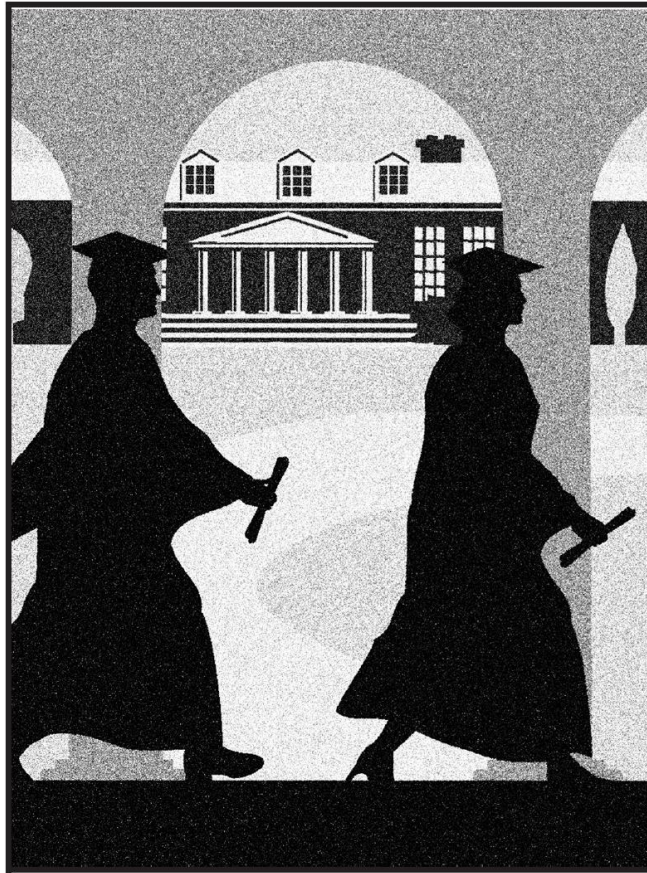


Publication 970

Tax Benefits for Education

For use in preparing **2023** Returns

Volume 2 of 5



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Example 5—Student with a dependent

child. Jane, age 28 and unmarried, enrolled full-time as a first-year student at a local technical college to get a certificate as a computer technician. This was Jane's first year of postsecondary education. During 2023, Jane paid \$6,000 for qualified education expenses. Jane and the college meet all the requirements for the American opportunity credit. Jane has a dependent child, age 10, who is a qualifying child for purposes of receiving the earned income credit (EIC) and the child tax credit. Jane's wages are \$21,400. Jane withheld no income taxes on these wages and has no other income or adjustments. Jane was awarded a \$5,500 scholarship. Under the terms of the scholarship, it may be used to pay tuition and any living expense, including rent. Jane paid \$10,000 in living expenses in 2023.

If Jane **excludes** the entire scholarship from income, Jane will be deemed to have applied

the entire scholarship to pay qualified education expenses. The AGI and MAGI would be \$21,400. The tax liability before any credits would be \$61. The qualified education expenses would be reduced to \$500. Jane would be able to receive a \$261 American opportunity credit (\$200 refundable and \$61 nonrefundable), a \$1,600 additional child tax credit, and a \$3,995 EIC. In total, Jane would be able to receive a tax refund of \$5,795.

If Jane **includes** the entire scholarship in income, Jane will be deemed to have applied the entire scholarship to pay living expenses. The qualified education expenses would be \$6,000, and the AGI and MAGI would be \$26,900. The tax liability before any credits would be \$613. Jane would be able to receive a \$1,613 American opportunity credit (\$1,000 refundable and \$613 nonrefundable), a \$1,600 additional child tax credit, and a \$3,138 EIC. In total, Jane would be able to receive a tax refund of \$5,738.

If Jane **includes** \$3,500 of the scholarship in income, Jane will be deemed to have applied \$3,500 of the scholarship to pay living expenses, and \$2,000 to pay qualified education expenses. The qualified education expenses would be \$4,000, and the AGI and MAGI would be \$24,900. The tax liability before any credits would be \$413. Jane would be able to receive a \$1,413 American opportunity credit (\$1,000 refundable and \$413 nonrefundable), a \$1,600 additional child tax credit, and a \$3,457 EIC. In total, Jane would be able to receive a tax refund of \$6,057.

If Jane **includes** \$1,500 of the scholarship in income, Jane will be deemed to have applied \$1,500 of the scholarship to pay living expenses, and \$4,000 to pay qualified education expenses. The qualified education expenses would be \$2,000, and the AGI and MAGI would be \$22,900. The tax liability before any credits would be \$211. Jane would

be able to receive a \$1,011 American opportunity credit (\$800 refundable and \$211 nonrefundable), a \$1,600 additional child tax credit, and a \$3,777 EIC. In total, Jane would be able to receive a tax refund of \$6,177. This is the highest tax refund among these scenarios.

Note. Whether you will benefit from applying a scholarship or fellowship grant to nonqualified expenses will depend on the amount of the student's qualified education expenses, the amount of the scholarship or fellowship grant, and whether the scholarship or fellowship grant may (by its terms) be used for nonqualified expenses. Any benefit will also depend on the student's federal and state marginal tax rates as well as any federal and state tax credits the student claims. Before deciding, look at the total amount of your federal and state tax refunds or taxes owed and, if the student is your dependent, the student's tax refunds or taxes

owed. For example, if you are the student and you also claim the EIC, choosing to apply a scholarship or fellowship grant to nonqualified expenses by including the amount in your income may benefit you if the increase to your American opportunity credit is more than the decrease to your EIC.

Expenses That Don't Qualify

Qualified education expenses don't include amounts paid for:

- Insurance;
- Medical expenses (including student health fees);
- Room and board;
- Transportation; or
- Similar personal, living, or family expenses.

This is true even if the amount must be paid to the institution as a condition of enrollment or attendance.

Sports, games, hobbies, and noncredit courses. Qualified education expenses generally don't include expenses that relate to any course of instruction or other education that involves sports, games, or hobbies, or any noncredit course. However, if the course of instruction or other education is part of the student's degree program, these expenses can qualify.

Comprehensive or bundled fees. Some eligible educational institutions combine all of their fees for an academic period into one amount. If you don't receive or don't have access to an allocation showing how much you paid for qualified education expenses and how much you paid for personal expenses, such as those listed earlier, contact the institution. The institution is generally required to make this allocation and provide

you with the amount you paid for qualified education expenses on Form 1098-T. See [*Figuring the Credit*](#), later, for more information about Form 1098-T.

Who Is an Eligible Student?

To claim the American opportunity credit, the student for whom you pay qualified education expenses must be an eligible student. This is a student who meets all of the following requirements.

- The student didn't have expenses that were used to figure an American opportunity credit in any 4 earlier tax years.
- The student hadn't completed the first 4 years of postsecondary education (generally, the freshman, sophomore, junior, and senior years of college) before 2023.

- For at least one academic period beginning in 2023 (or the first 3 months of 2024 if the qualified expenses were paid in 2023), the student was enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.
- The student hasn't been convicted of any federal or state felony for possessing or distributing a controlled substance as of the end of 2023.

These requirements are also shown in [Figure 2-2](#).

Completion of first 4 years. A student has completed the first 4 years of postsecondary education if the institution at which the student is enrolled awards the student 4 years of academic credit at that institution for coursework completed by the student before 2023. This student generally wouldn't be an

eligible student for purposes of the American opportunity credit.

Exception. Any academic credit awarded solely on the basis of the student's performance on proficiency examinations is disregarded in determining whether the student has completed 4 years of postsecondary education.

Enrolled at least half-time. A student was enrolled at least half-time if the student was taking at least half the normal full-time workload for their course of study.

The standard for what is half of the normal full-time workload is determined by each eligible educational institution. However, the standard may not be lower than any of those established by the U.S. Department of Education under the Higher Education Act of 1965.

Example 1. Mack graduated from high school in June 2022. In September, Mack

enrolled in an undergraduate degree program at College U, and attended full-time for both the 2022 fall and 2023 spring semesters. For the 2023 fall semester, Mack was enrolled less than half-time. Because Mack was enrolled in an undergraduate degree program on at least a half-time basis for at least one academic period that began in 2022 and at least one academic period that began in 2023, Mack is an eligible student for tax years 2022 and 2023 (including the 2023 fall semester when Mack enrolled at College U on less than a half-time basis).

Example 2. After taking classes at College V on a part-time basis for a few years, Shelly became a full-time student for the 2023 spring semester. College V classified Shelly as a second-semester senior (fourth year) for the 2023 spring semester and as a first-semester graduate student (fifth year) for the 2023 fall semester. Because College V didn't classify Shelly as having completed the first 4

years of postsecondary education as of the beginning of 2023, Shelly is an eligible student for tax year 2023. Therefore, the qualified education expenses paid for the 2023 spring semester and the 2023 fall semester are taken into account in figuring the American opportunity credit for 2023.

Example 3. During the 2022 fall semester, Larry was a high school student who took classes on a half-time basis at College X. Larry wasn't enrolled as part of a degree program at College X because College X only admits students to a degree program if they have a high school diploma or equivalent. Because Larry wasn't enrolled in a degree program at College X during 2022, Larry wasn't an eligible student for tax year 2022.

Example 4. The facts are the same as in *Example 3*. During the 2023 spring semester, Larry again attended College X but not as part of a degree program. Larry graduated from high school in June 2023. For the 2023 fall

semester, Larry enrolled as a full-time student in College X as part of a degree program, and College X awarded Larry credit for the prior coursework at College X.

Because Larry was enrolled in a degree program at College X for the 2023 fall term on at least a half-time basis, Larry is an eligible student for all of tax year 2023.

Therefore, the qualified education expenses paid for classes taken at College X during both the 2023 spring semester (during which Larry wasn't enrolled in a degree program) and the 2023 fall semester are taken into account in figuring any American opportunity credit.

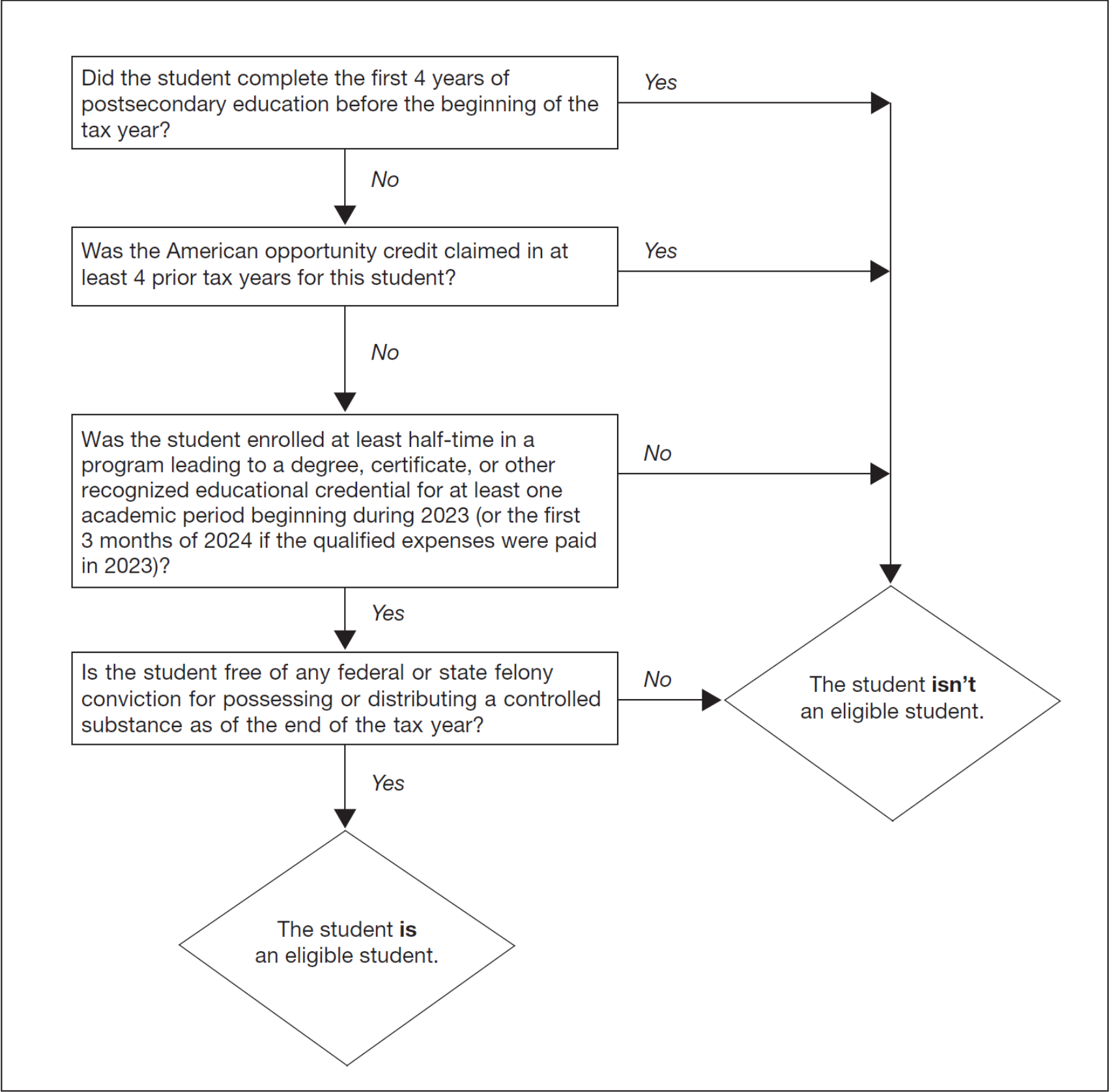
Example 5. Dee graduated from high school in June 2022. In January 2023, Dee enrolled in a 1-year postsecondary certificate program on a full-time basis to obtain a certificate as a travel agent. Dee completed the program in December 2023 and was awarded a certificate. In January 2024, Dee enrolled in a

1-year postsecondary certificate program on a full-time basis to obtain a certificate as a computer programmer. Dee is an eligible student for both tax years 2023 and 2024 because the degree requirement, the workload requirement, and the year of study requirement for those years have been met.

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Figure 2-2. Who Is an Eligible Student for the American Opportunity Credit?

This chart is provided to help you quickly decide whether a student is eligible for the American opportunity credit. See the text for more details.



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Who Can Claim a Dependent's Expenses?

If there are qualified education expenses for your dependent during a tax year, either you or your dependent, but not both of you, can claim an American opportunity credit for your dependent's expenses for that year.

For you to claim an American opportunity credit for your dependent's expenses, you must also claim your dependent on your tax return. You do this by listing your dependent's name and other required information on Form 1040 or 1040-SR.

IF you...

claim on your tax return a dependent who is an eligible student

THEN only...

you can claim the American opportunity credit based on that dependent's expenses. The

dependent can't claim the credit.

don't claim on your tax return a dependent who is an eligible student (even if entitled to claim the dependent)

the dependent can claim the American opportunity credit. You can't claim the credit based on this dependent's expenses.

Expenses paid by dependent. If you claim on your tax return an eligible student who is your dependent, treat any expenses paid (or deemed paid) by your dependent as if you had paid them. Include these expenses when figuring the amount of your American opportunity credit.



Qualified education expenses paid directly to an eligible educational institution for your dependent under a court-approved divorce decree are treated as paid by your dependent.

Expenses paid by you. If you claim a dependent who is an eligible student, only you can include any expenses you paid when figuring the amount of the American opportunity credit. If neither you nor anyone else claims the dependent, only the dependent can include any expenses you paid when figuring the American opportunity credit.

Expenses paid by others. Someone other than you, your spouse, or your dependent (such as a relative or former spouse) may make a payment directly to an eligible educational institution to pay for an eligible student's qualified education expenses. In this case, the student is treated as receiving the payment from the other person and, in turn, paying the institution. If you claim the student as a dependent on your tax return, you are considered to have paid the expenses.

Example. In 2023, Todd's grandparent makes a payment directly to an eligible educational institution for Todd's qualified education expenses. For purposes of claiming an American opportunity credit, Todd is treated as receiving the money from the grandparent and, in turn, paying the qualified education expenses himself.

Unless Todd is claimed as a dependent on someone else's 2023 tax return, only Todd can use the payment to claim an American opportunity credit.

If anyone, such as Todd's parents, claims Todd on their 2023 tax return, whoever claims Todd may be able to use the expenses to claim an American opportunity credit. If anyone else claims Todd, Todd can't claim an American opportunity credit.

Tuition reduction. When an eligible educational institution provides a reduction in tuition to an employee of the institution (or spouse or dependent child of an employee),

the amount of the reduction may or may not be taxable. If it is taxable, the employee is treated as receiving a payment of that amount and, in turn, paying it to the educational institution on behalf of the student. For more information on tuition reductions, see [*Qualified Tuition Reduction*](#) in chapter 1.

Figuring the Credit

The amount of the American opportunity credit (per eligible student) is the sum of:

1. 100% of the first \$2,000 of qualified education expenses you paid for the eligible student, and
2. 25% of the next \$2,000 of qualified education expenses you paid for that student.

The maximum amount of American opportunity credit you can claim in 2023 is \$2,500 multiplied by the number of eligible

students. You can claim the full \$2,500 for each eligible student for whom you paid at least \$4,000 of adjusted qualified education expenses. However, the credit may be reduced based on your MAGI. See [*Effect of the Amount of Your Income on the Amount of Your Credit*](#), later.

Example. Jack and Kay are married and file a joint tax return. For 2023, they claim their dependent child on their tax return. Their MAGI is \$70,000. Their child is in the junior (third) year of studies at the local university. Jack and Kay paid qualified education expenses of \$4,300 in 2023.

Jack and Kay, their child, and the local university meet all of the requirements for the American opportunity credit. Jack and Kay can claim a \$2,500 American opportunity credit in 2023. This is 100% of the first \$2,000 of qualified education expenses, plus 25% of the next \$2,000.

Form 1098T. To help you figure your American opportunity credit, the student may receive Form 1098T. Generally, an eligible educational institution (such as a college or university) must send Form 1098T (or acceptable substitute) to each enrolled student by January 31, 2024. An institution will report payments received (box 1) for qualified education expenses. However, the amount on Form 1098T might be different from what you paid. When figuring the credit, use only the amounts you paid or are deemed to have paid in 2023 for qualified education expenses.

In addition, Form 1098T should give other information for that institution, such as adjustments made for prior years, the amount of scholarships or grants, reimbursements or refunds, and whether the student was enrolled at least halftime or was a graduate student.

The eligible educational institution may ask for a completed Form W9S, Request for Student's or Borrower's Taxpayer Identification Number and Certification, or similar statement to obtain the student's name, address, and TIN.



To claim the American opportunity credit, you must provide the educational institution's EIN on your Form 8863. You should be able to obtain this information from Form 1098T or the educational institution.

Effect of the Amount of Your Income on the Amount of Your Credit

The amount of your American opportunity credit is phased out (gradually reduced) if your MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return). You can't claim an American opportunity credit if your MAGI is \$90,000 or

more (\$180,000 or more if you file a joint return).

Modified adjusted gross income (MAGI).

For most taxpayers, MAGI is adjusted gross income (AGI) as figured on their federal income tax return.

MAGI when using Form 1040 or 1040SR.

If you file Form 1040 or 1040SR, your MAGI is the AGI on line 11 of that form, modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion,
3. Foreign housing deduction,
4. Exclusion of income by bona fide residents of American Samoa, and
5. Exclusion of income by bona fide residents of Puerto Rico.

You can use Worksheet 21 to figure your MAGI.

Worksheet 2-1. **MAGI for the American Opportunity Credit**

1.	Enter your adjusted gross income (Form 1040 or 1040-SR, line 11)	1. _____
2.	Enter your foreign earned income exclusion and/or housing exclusion (Form 2555, line 45)	2. _____
3.	Enter your foreign housing deduction (Form 2555, line 50)	3. _____
4.	Enter the amount of income from Puerto Rico you are excluding	4. _____
5.	Enter the amount of income from American Samoa you are excluding (Form 4563, line 15)	5. _____
6.	Add the amounts on lines 2, 3, 4, and 5	6. _____
7.	Add the amounts on lines 1 and 6. This is your modified adjusted gross income . Enter here and on Form 8863, line 3	7. _____

Phaseout. If your MAGI is within the range of incomes where the credit must be reduced, you will figure your reduced credit using lines 2–7 of Form 8863, Part I. The same method is shown in the following example.

Example. You are filing a joint return and your MAGI is \$165,000. In 2023, you paid \$5,000 of qualified education expenses.

You figure a tentative American opportunity credit of \$2,500 (100% of the first \$2,000 of qualified education expenses, plus 25% of the next \$2,000 of qualified education expenses).

Because your MAGI is within the range of incomes where the credit must be reduced, you must multiply your tentative credit (\$2,500) by a fraction. The numerator (top part) of the fraction is \$180,000 (the upper limit for those filing a joint return) minus your MAGI. The denominator (bottom part) is \$20,000, the range of incomes for the phaseout (\$160,000 to \$180,000). The result is the amount of your phased out (reduced) American opportunity credit (\$1,875).

$$\$2,500 \times \frac{\$180,000 - \$165,000}{\$20,000} = \$1,875$$

Refundable Part of Credit

Forty percent of the American opportunity credit is refundable for most taxpayers.

However, if you were under age 24 at the end of 2023 and the conditions listed below apply to you, you **can't** claim any part of the American opportunity credit as a refundable credit on your tax return. Instead, your allowed credit (figured on Form 8863, Part II) will be used to reduce your tax as a nonrefundable credit only.

You **don't** qualify for a refund if items 1 (a, b, or c), 2, and 3 below apply to you.

1. You were:

- a. Under age 18 at the end of 2023,
or
- b. Age 18 at the end of 2023 **and** your earned income (defined below) was less than one-half of your support (defined below), **or**

- c. Over age 18 and under age 24 at the end of 2023 **and** a fulltime student (defined below) **and** your earned income (defined below) was less than one-half of your support (defined below).
- 2. At least one of your parents was alive at the end of 2023.
- 3. You are filing a return as single, head of household, qualifying surviving spouse, or married filing separately for 2023.

Earned income. Earned income includes wages, salaries, professional fees, and other payments received for personal services actually performed. Earned income includes the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services performed by the student that are required as a condition for receiving the scholarship or fellowship grant.

Earned income doesn't include that part of the compensation for personal services rendered to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered.

If you are a sole proprietor or a partner in a trade or business in which both personal services and capital are material income-producing factors, earned income also includes a reasonable allowance for compensation for personal services, but not more than 30% of your share of the net profits from that trade or business (after subtracting the deduction for one-half of self-employment tax). However, if capital isn't an income-producing factor and your personal services produced the business income, the 30% limit doesn't apply.

Support. Your support includes food, shelter, clothing, medical and dental care, education, and the like. Generally, the amount of the

item of support will be the amount of expenses incurred by the one furnishing such item. If the item of support is in the form of property or lodging, measure the amount of such item of support by its fair market value. However, a scholarship received by you isn't considered support if you are a fulltime student. See Pub. 501 for details.

Full-time student. You are a fulltime student for 2023 if during any part of any 5 calendar months during the year you were enrolled as a fulltime student at an eligible educational institution (defined earlier), or took a fulltime, on-farm training course given by such an institution or by a state, county, or local government agency.

Claiming the Credit

You claim the American opportunity credit by completing Form 8863 and submitting it with your Form 1040 or 1040SR. Enter the nonrefundable part of the credit on Schedule 3 (Form 1040), line 3. Enter the refundable part of the credit on Form 1040 or 1040SR, line 29.

3.

Lifetime Learning Credit

Reminders

Modified adjusted gross income (MAGI) limits. For 2023, the amount of your lifetime learning credit is gradually reduced (phased out) if your MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return). You can't claim the credit if your MAGI is \$90,000 or more (\$180,000 or more if you file a joint return). For more information, see [*Figuring the Credit*](#).

Form 1098-T requirement. To be eligible to claim the lifetime learning credit, the law requires a taxpayer (or a dependent) to have received Form 1098T, Tuition Statement, from an eligible educational institution, whether domestic or foreign.

However, you may claim the credit if the student doesn't receive a Form 1098T

because the student's educational institution isn't required to furnish a Form 1098T to the student under existing rules (for example, if the student is a qualified nonresident alien, has qualified education expenses paid entirely with scholarships, has qualified education expenses paid under a formal billing arrangement, or is enrolled in courses for which no academic credit is awarded). If a student's educational institution isn't required to provide a Form 1098T to the student, you may claim the credit without a Form 1098T if you otherwise qualify, can demonstrate that you (or a dependent) were enrolled at an eligible educational institution, and can substantiate the payment of qualified tuition and related expenses.

You may also claim the credit if the student attended an eligible educational institution required to furnish Form 1098T but the student doesn't receive Form 1098T before you file your tax return (for example, if the

institution is otherwise required to furnish the Form 1098T and doesn't furnish it or refuses to do so) and you take the following required steps: After January 31, 2024, but before you file your 2023 tax return, you or the student must request that the educational institution furnish a Form 1098T. You must fully cooperate with the educational institution's efforts to gather the information needed to furnish the Form 1098T. You must also otherwise qualify for the benefit, be able to demonstrate that you (or a dependent) were enrolled at an eligible educational institution, and substantiate the payment of qualified tuition and related expenses.

Introduction

For 2023, there are two tax credits available to help you offset the costs of higher education by reducing the amount of your income tax. They are the American opportunity credit and the lifetime learning credit. This chapter discusses the lifetime

learning credit. The American opportunity credit is discussed in [chapter 2](#).

This chapter explains:

- Who can claim the lifetime learning credit,
- What expenses qualify for the credit,
- Who is an eligible student,
- Who can claim a dependent's expenses,
- How to figure the credit,
- How to claim the credit, and
- When the credit must be repaid.

What is the tax benefit of the lifetime learning credit? For the tax year, you may be able to claim a lifetime learning credit of up to \$2,000 for qualified education expenses paid for all eligible students. There is no limit on the number of years the lifetime learning credit can be claimed for each student.

A tax credit reduces the amount of income tax you may have to pay. Unlike a deduction,

which reduces the amount of income subject to tax, a credit directly reduces the tax itself. The lifetime learning credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax, the excess won't be refunded to you.

Your allowable lifetime learning credit may be limited by the amount of your income and the amount of your tax.

Can you claim more than one education credit this year? For each student, you can elect for any year only one of the credits. For example, if you elect to claim the lifetime learning credit for a child on your 2023 tax return, you can't, for that same child, also claim the American opportunity credit for 2023.

If you are eligible to claim the lifetime learning credit and you are also eligible to claim the American opportunity credit for the same student in the same year, you can choose to claim either credit, but not both.



If you claim the American opportunity credit for any student, you can choose between using that student's adjusted qualified education expenses for the American opportunity credit or the lifetime learning credit. If you have the choice, the American opportunity credit will always be greater than the lifetime learning credit.

If you pay qualified education expenses for more than one student in the same year, you can choose to claim certain credits on a per-student, per-year basis. This means that, for example, you can claim the American opportunity credit for one student and the lifetime learning credit for another student in the same year.

Differences between the American opportunity and lifetime learning credits.

There are several differences between these two credits. For example, you can claim the American opportunity credit for the same

student for no more than 4 tax years. However, there is no limit on the number of years for which you can claim a lifetime learning credit based on the same student's expenses. The differences between these credits are shown in the [Appendix](#) near the end of this publication.

Overview of the lifetime learning credit for 2023. See [Table 3-1](#) for the basics of the credit. The details are discussed in this chapter.

Can You Claim the Credit?

The following rules will help you determine if you are eligible to claim the lifetime learning credit on your tax return.

Who Can Claim the Credit?

Generally, you can claim the lifetime learning credit if all three of the following requirements are met.

- You pay qualified education expenses of higher education.
- You pay the education expenses for an eligible student.
- The eligible student is either yourself, your spouse, or a dependent you claim on your tax return.

Table 3-1. Overview of the Lifetime Learning Credit for 2023

Maximum credit	Up to \$2,000 credit per return
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filling jointly; \$90,000 if single, head of household, or qualifying surviving spouse

Refundable or nonrefundable

Nonrefundable—credit limited to the amount of tax you must pay on your taxable income

Number of years of postsecondary education

Available for all years of postsecondary education and for courses to acquire or improve job skills

Number of tax years credit available

Available for an unlimited number of tax years

Type of program required

Student doesn't need to be pursuing a program leading to a degree or other recognized education credential

Number of courses	Available for one or more courses
Felony drug conviction	Felony drug convictions don't make the student ineligible
Qualified expenses	Tuition and fees required for enrollment or attendance (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2023 for academic periods beginning in 2023 or beginning in

the first 3 months of
2024

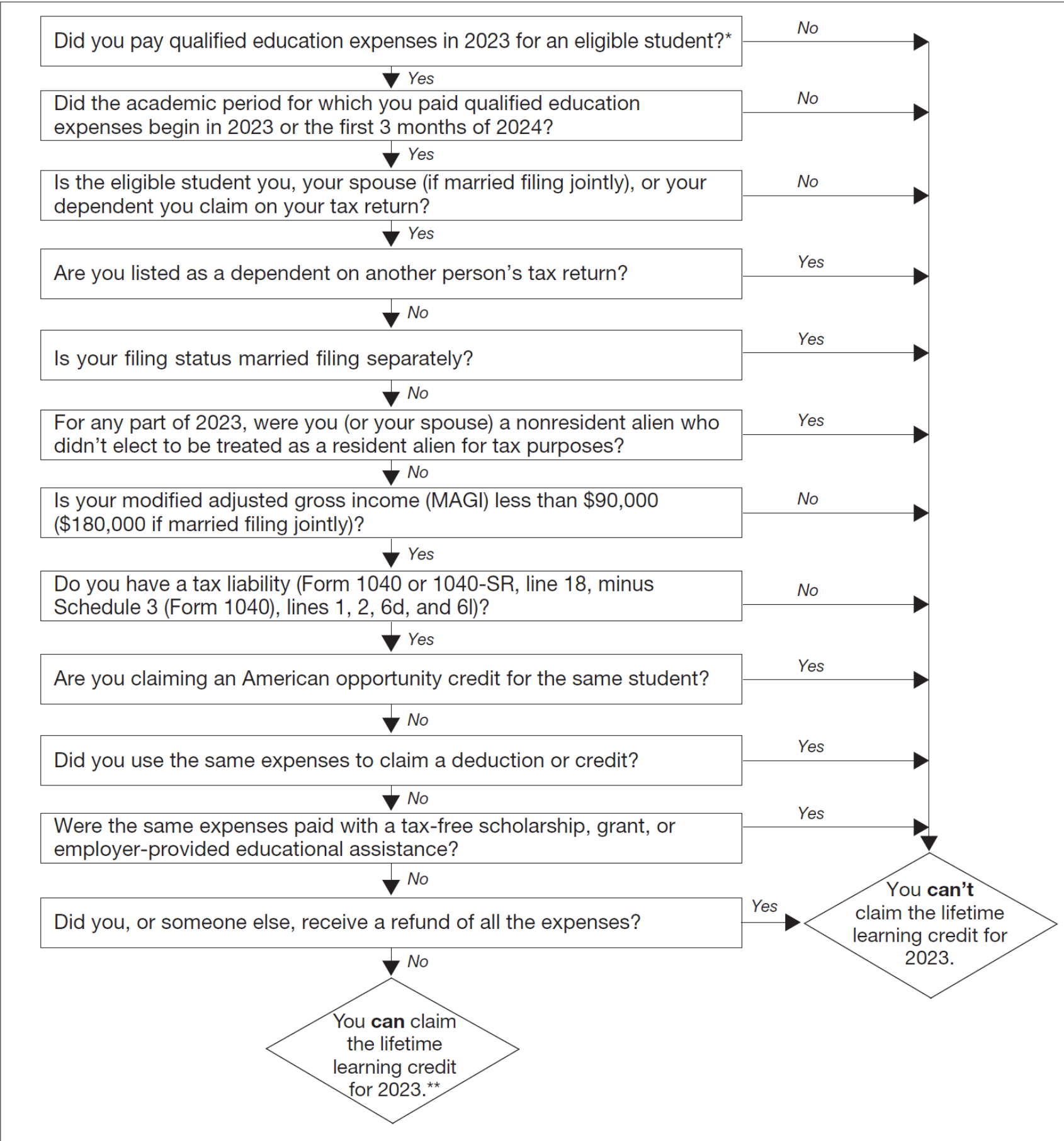
Note. Qualified education expenses paid by a dependent you claim on your tax return, or by a third party for that dependent, are considered paid by you.

“Qualified education expenses” are defined later under [*Qualified Education Expenses*](#).

“Eligible students” are defined later under [*Who Is an Eligible Student*](#). A dependent you claim on your tax return is defined later under [*Who Can Claim a Dependent's Expenses*](#).

You may find [Figure 3-1](#) helpful in determining if you can claim a lifetime learning credit on your tax return.

Figure 3-1. Can You Claim the Lifetime Learning Credit for 2023?



*Qualified education expenses paid by a dependent you claim on your tax return, or by a third party for that dependent, are considered paid by you.

**Your education credits may be limited to your tax liability minus certain credits. See Form 8863 for more details.

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Who Can't Claim the Credit?

You can't claim the lifetime learning credit for 2023 if any of the following apply.

- Your filing status is married filing separately.
- You are listed as a dependent on another person's tax return (such as your parents'). See [*Who Can Claim a Dependent's Expenses*](#), later.
- Your modified adjusted gross income (MAGI) is \$90,000 or more (\$180,000 or more if filing married filing jointly). MAGI is explained later under [*Effect of the Amount of Your Income on the Amount of Your Credit*](#).
- You (or your spouse) were a nonresident alien for any part of 2023 and the nonresident alien didn't elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be found in Pub. 519.

- You claim the American opportunity credit (see chapter 2) for the same student in 2023.

What Expenses Qualify?

The lifetime learning credit is based on qualified education expenses you pay for yourself, your spouse, or a dependent you claim on your tax return. Generally, the credit is allowed for qualified education expenses paid in 2023 for an academic period beginning in 2023 or in the first 3 months of 2024.

For example, if you paid \$1,500 in December 2023 for qualified tuition for the spring 2024 semester beginning in January 2024, you may be able to use that \$1,500 in figuring your 2023 credit.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by

an educational institution. If an educational institution uses credit hours or clock hours and doesn't have academic terms, each payment period can be treated as an academic period.

Paid with borrowed funds. You can claim a lifetime learning credit for qualified education expenses paid with the proceeds of a loan. You use the expenses to figure the lifetime learning credit for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan disbursements sent directly to the educational institution as paid on the date the institution credits the student's account.

Student withdraws from class(es). You can claim a lifetime learning credit for qualified education expenses not refunded when a student withdraws.

Qualified Education Expenses

For purposes of the lifetime learning credit, qualified education expenses are tuition and certain related expenses required for enrollment in a course at an eligible educational institution. The course must be either part of a postsecondary degree program or taken by the student to acquire or improve job skills.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. Virtually all accredited public, nonprofit, and proprietary (privately owned profitmaking) postsecondary institutions meet this definition.

An eligible educational institution also includes certain educational institutions

located outside the United States that are eligible to participate in a student aid program administered by the U.S. Department of Education.



The educational institution should be able to tell you if it is an eligible educational institution.

Related expenses. Student activity fees and expenses for course-related books, supplies, and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution for enrollment or attendance.

Prepaid expenses. Qualified education expenses paid in 2023 for an academic period that begins in the first 3 months of 2024 can be used in figuring an education credit for 2023 only. See [Academic period](#), earlier. For example, if you pay \$2,000 in December 2023 for qualified tuition for the 2024 winter quarter that begins in January 2024, you can use that \$2,000 in figuring an education

credit for 2023 only (if you meet all the other requirements).



You can't use any amount you paid in 2022 or 2024 to figure the qualified education expenses you use to figure your 2023 education credit(s).

In the following examples, assume that each student is an eligible student at an eligible educational institution.

Example 1. Jackson is a sophomore in University V's degree program in dentistry. This year, in addition to tuition, Jackson is required to pay a fee to the university for the rental of the dental equipment that will be used in this program. Because the equipment rental fee must be paid to University V for enrollment and attendance, the equipment rental fee is a qualified expense.

Example 2. Donna and Charles, both first-year students at College W, are required to have certain books and other reading

materials to use in their mandatory first-year classes. The college has no policy about how students should obtain these materials, but any student who purchases them from College W's bookstore will receive a bill directly from the college. Charles bought the books from a friend, so what was paid for them isn't a qualified education expense. Donna bought the books at College W's bookstore. Although Donna paid College W directly for the first-year books and materials, the payment isn't a qualified expense because the books and materials aren't required to be purchased from College W for enrollment or attendance at the institution.

Example 3. When Marci enrolled at College X for freshman year, a separate student activity fee in addition to tuition had to be paid. This activity fee is required of all students, and is used solely to fund on-campus organizations and activities run by students, such as the student newspaper and student government.

No portion of the fee covers personal expenses. Although labeled as a student activity fee, the fee is required for Marci's enrollment and attendance at College X. Therefore, it is a qualified expense.

No Double Benefit Allowed

You can't do any of the following.

- Deduct higher education expenses on your income tax return (as, for example, a business expense) and also claim a lifetime learning credit based on those same expenses.
- Claim a lifetime learning credit for any student and use any of that student's expenses in figuring your American opportunity credit.
- Claim a lifetime learning credit based on the same expenses used to figure the tax-free portion of a distribution from a Coverdell education savings account

- (ESA) or qualified tuition program (QTP). See [Coordination With American Opportunity and Lifetime Learning Credits](#) in chapter 6 and [Coordination With American Opportunity and Lifetime Learning Credits](#) in chapter 7.
- Claim a credit based on qualified education expenses paid with tax-free educational assistance, such as a scholarship, grant, or assistance provided by an employer. See *Adjustments to Qualified Education Expenses* next.

Adjustments to Qualified Education Expenses

For each student, reduce the qualified education expenses paid by or on behalf of that student under the following rules. The result is the amount of adjusted qualified education expenses for each student.

Tax-free educational assistance. For tax-free educational assistance received in 2023,

reduce the qualified educational expenses for each academic period by the amount of tax-free educational assistance allocable to that academic period. See [*Academic period*](#), earlier.

Some tax-free educational assistance received after 2023 may be treated as a refund of qualified education expenses paid in 2023. This tax-free educational assistance is any tax-free educational assistance received by you or anyone else after 2023 for qualified education expenses paid on behalf of a student in 2023 (or attributable to enrollment at an eligible educational institution during 2023).

If this tax-free educational assistance is received after 2023 but before you file your 2023 income tax return, see [*Refunds received after 2023 but before your income tax return is filed*](#), later. If this tax-free educational assistance is received after 2023 and after you file your 2023 income tax return, see

Refunds received after 2023 and after your income tax return is filed, later.

Tax-free educational assistance includes:

- The tax-free part of scholarships and fellowship grants (see [Tax-Free Scholarships and Fellowship Grants](#) in chapter 1);
- The tax-free part of Pell grants (see [Pell Grants and Other Title IV Need-Based Education Grants](#) in chapter 1);
- Employer-provided educational assistance (see [chapter 10](#));
- Veterans' educational assistance (see [Veterans' Benefits](#) in chapter 1); and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Generally, any scholarship or fellowship grant is treated as tax free. However, a scholarship or fellowship grant isn't treated as tax free to

the extent the student includes it in gross income (the student may or may not be required to file a tax return for the year the scholarship or fellowship grant is received) and either of the following is true.

- The scholarship or fellowship grant (or any part of it) **must** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses as defined in [Qualified education expenses](#) in chapter 1.
- The scholarship or fellowship grant (or any part of it) **may** be applied (by its terms) to expenses (such as room and board) other than qualified education expenses as defined in [Qualified education expenses](#) in chapter 1.



A student can't choose to include in income a scholarship or fellowship grant provided by an Indian tribal government that is excluded from income under the Tribal General Welfare Exclusion

Act of 2014 or benefits provided by an educational program described in Revenue Procedure 201435, section 5.02(2)(b) (ii), available at [IRS.gov/irb/201426_IRB#RP201435](https://www.irs.gov/irb/201426_IRB#RP201435).



You may be able to increase the combined value of an education credit if the student includes some or all of a scholarship or fellowship grant in income in the year it is received. For examples, see [Coordination with Pell grants and other scholarships](#), later.

Refunds. A refund of qualified education expenses may reduce adjusted qualified education expenses for the tax year or require repayment (recapture) of a credit claimed in an earlier year. Some tax-free educational assistance received after 2023 may be treated as a refund. See [Tax-free educational assistance](#), earlier.

Refunds received in 2023. For each student, figure the adjusted qualified education expenses for 2023 by adding all the qualified education expenses for 2023 and subtracting any refunds of those expenses received from the eligible educational institution during 2023.

Refunds received after 2023 but before your income tax return is filed. If anyone receives a refund after 2023 of qualified education expenses paid on behalf of a student in 2023 and the refund is paid before you file an income tax return for 2023, the amount of qualified education expenses for 2023 is reduced by the amount of the refund.

Refunds received after 2023 and after your income tax return is filed. If anyone receives a refund after 2023 of qualified education expenses paid on behalf of a student in 2023 and the refund is paid after you file an income tax return for 2023, you

may need to repay some or all of the credit. See *Credit recapture* next.

Credit recapture. If any tax-free educational assistance for the qualified education expenses paid in 2023 or any refund of your qualified education expenses paid in 2023 is received after you file your 2023 income tax return, you must recapture (repay) any excess credit. You do this by refiguring the amount of your adjusted qualified education expenses for 2023 by reducing the expenses by the amount of the refund or tax-free educational assistance. You then refigure your education credit(s) for 2023 and figure the amount by which your 2023 tax liability would have increased if you had claimed the refigured credit(s). Include that amount as an additional tax for the year the refund or tax-free assistance was received.

Example. You pay \$9,300 in tuition and fees in December 2023, and your child began

college in January 2024. You filed your 2023 tax return on February 14, 2024, and claimed a lifetime learning credit of \$1,860. You claimed no other tax credits. After you filed your return, your child withdrew from two courses and you received a refund of \$2,900. You must refigure your 2023 lifetime learning credit using \$6,400 of qualified education expenses instead of \$9,300. The refigured credit is \$1,280 and your tax liability increased by \$580. See the instructions for your 2024 income tax return to determine where to include this tax.



If you pay qualified education expenses in both 2023 and 2024 for an academic period that begins in the first 3 months of 2024 and you receive tax-free educational assistance, or a refund, as described above, you may choose to reduce your qualified education expenses for 2024 instead of reducing your expenses for 2023.

Amounts that don't reduce qualified education expenses. Don't reduce qualified education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages;
- A loan;
- A gift;
- An inheritance; or
- A withdrawal from the student's personal savings.

Don't reduce the qualified education expenses by any scholarship or fellowship grant reported as income on the student's tax return in the following situations.

- The use of the money is restricted, by the terms of the scholarship or fellowship grant, to costs of attendance (such as room and board) other than qualified education expenses, as defined in [Qualified education expenses](#) in chapter 1.

- The use of the money isn't restricted.

For examples, see *Adjustments to Qualified Education Expenses* in chapter 2.

Coordination with Pell grants and other scholarships. You may be able to increase your lifetime learning credit when the student (you, your spouse, or your dependent) includes certain scholarships or fellowship grants in the student's gross income. Your credit may increase only if the amount of the student's qualified education expenses minus the total amount of scholarships and fellowship grants is less than \$10,000. If this situation applies, consider including some or all of the scholarship or fellowship grant in the student's income in order to treat the included amount as paying nonqualified expenses instead of qualified education expenses. Nonqualified expenses are expenses such as room and board that aren't qualified education expenses such as tuition and related fees.

Scholarships and fellowship grants that the student includes in income don't reduce the student's qualified education expenses available to figure your lifetime learning credit. Thus, including enough of the scholarship or fellowship grant in the student's income to report up to \$10,000 in qualified education expenses for your lifetime learning credit may increase the credit by enough to increase your tax refund or reduce the amount of tax you owe even considering any increased tax liability from the additional income. However, the increase in tax liability as well as the loss of other tax credits may be greater than the additional lifetime learning credit and may cause your tax refund to decrease or the amount of tax you owe to increase. Your specific circumstances will determine what amount, if any, of the scholarship or fellowship grant to include in income to maximize your tax refund or minimize the amount of tax you owe.

The scholarship or fellowship grant must be one that may qualify as a tax-free scholarship under the rules discussed in [chapter 1](#). Also, the scholarship or fellowship grant must be one that may (by its terms) be used for nonqualified expenses. Finally, the amount of the scholarship or fellowship grant that is applied to nonqualified expenses can't exceed the amount of the student's actual nonqualified expenses that are paid in the tax year. This amount may differ from the student's living expenses estimated by the student's school in figuring the official cost of attendance under student aid rules.

The fact that the educational institution applies the scholarship or fellowship grant to qualified education expenses, such as tuition and related fees, doesn't prevent the student from choosing to apply certain scholarships or fellowship grants to the student's actual nonqualified expenses. By making this choice (that is, by including the part of the

scholarship or fellowship grant applied to the student's nonqualified expenses in income), the student may increase taxable income and may be required to file a tax return. But this allows payments made in cash, by check, by credit or debit card, or with borrowed funds such as a student loan to be applied to qualified education expenses.

Example 1—No scholarship. Judy, who is unmarried, is taking courses at a public community college to be recertified to teach in public schools. The adjusted gross income (AGI) and the MAGI, for purposes of the credit, are \$28,700. Judy claims the standard deduction of \$13,850, resulting in taxable income of \$14,850 and a tax liability before credits of \$1,565. Judy claims no credits other than the lifetime learning credit. In July 2023, Judy paid \$700 for the summer 2023 semester; in August 2023, Judy paid \$1,900 for the fall 2023 semester; and in December 2023, Judy paid another \$1,900 for the spring

semester beginning in January 2024. Judy and the college meet all requirements for the lifetime learning credit. All of the \$4,500 tuition paid in 2023 can be used when figuring the 2023 lifetime learning credit. Judy claims a \$900 lifetime learning credit and the tax liability after credits is \$665.

Example 2—Scholarship excluded from income. The facts are the same as in *Example 1—No scholarship*, except that Judy was awarded a \$1,500 scholarship. Under the terms of the scholarship, it may be used to pay any educational expenses, including room and board. If the scholarship is excluded from income, Judy will be deemed (for purposes of figuring the education credit) to have applied the scholarship to pay for tuition, required fees, and course materials. Only \$3,000 of the \$4,500 tuition paid in 2023 could be used when figuring the 2023 lifetime learning credit. The lifetime learning credit would be

reduced to \$600 and the tax liability after credits would be \$965.

Example 3—Scholarship included in income. The facts are the same as in *Example 2—Scholarship excluded from income*. If, unlike *Example 2*, Judy includes the \$1,500 scholarship in income, Judy will be deemed to have applied the entire scholarship to pay for room and board. Judy's AGI and MAGI would increase to \$30,200, the taxable income would be \$16,350, and the tax liability before credits would be \$1,745. Judy would be able to use the \$4,500 of adjusted qualified education expenses to figure the credit. Judy could claim a \$900 lifetime learning credit and the tax liability after credits would be \$845.

Example 4—Scholarship applied by the postsecondary school to tuition. The facts are the same as in *Example 3—Scholarship included in income*, except the \$1,500 scholarship is paid directly to the public

community college. The fact that the public community college applies the scholarship to Judy's tuition and related fees doesn't prevent Judy from including the \$1,500 scholarship in income. As in *Example 3*, by doing so, Judy will be deemed to have applied the entire scholarship to pay for room and board. Judy could claim the \$900 lifetime learning credit and the tax liability after credits would be \$845.

Note. Whether you will benefit from applying a scholarship or fellowship grant to nonqualified expenses will depend on the amount of the student's qualified education expenses, the amount of the scholarship or fellowship grant, and whether the scholarship or fellowship grant may (by its terms) be used for nonqualified expenses. Any benefit will also depend on the student's federal and state marginal tax rates as well as any federal and state tax credits the student claims. Before deciding, look at the total

amount of your federal and state tax refunds or taxes owed and, if the student is your dependent, the student's tax refunds or taxes owed. For example, if you are the student and you also claim the earned income credit, choosing to apply a scholarship or fellowship grant to nonqualified expenses by including the amount in your income may not benefit you if the decrease to your earned income credit as a result of including the scholarship or fellowship grant in income is more than the increase to your lifetime learning credit as a result of including this amount in income.

Expenses That Don't Qualify

Qualified education expenses don't include amounts paid for:

- Insurance;
- Medical expenses (including student health fees);
- Room and board;

- Transportation; or
- Similar personal, living, or family expenses.

This is true even if the amount must be paid to the institution as a condition of enrollment or attendance.

Sports, games, hobbies, and noncredit courses. Qualified education expenses generally don't include expenses that relate to any course of instruction or other education that involves sports, games, or hobbies, or any noncredit course. However, if the course of instruction or other education is part of the student's degree program or is taken by the student to acquire or improve job skills, these expenses can qualify.

Comprehensive or bundled fees. Some eligible educational institutions combine all of their fees for an academic period into one amount. If you don't receive or don't have access to an allocation showing how much

you paid for qualified education expenses and how much you paid for personal expenses, such as those listed above, contact the institution. The institution is generally required to make this allocation and provide you with the amount you paid for qualified education expenses on Form 1098-T. See [Figuring the Credit](#), later, for more information about Form 1098-T.

Who Is an Eligible Student?

For purposes of the lifetime learning credit, an eligible student is a student who is enrolled in one or more courses at an eligible educational institution (as defined under [Qualified Education Expenses](#), earlier).

Who Can Claim a Dependent's Expenses?

If there are qualified education expenses for your dependent during a tax year, either you or your dependent, but not both of you, can

claim a lifetime learning credit for your dependent's expenses for that year.

For you to claim a lifetime learning credit for your dependent's expenses, you must also claim your dependent on your tax return. You do this by listing your dependent's name and other required information on Form 1040 or 1040-SR.

IF you...

THEN only...

claim on your tax return a dependent who is an eligible student

you can claim the lifetime learning credit based on that dependent's expenses. The dependent can't claim the credit.

don't claim on your tax return a dependent who is an eligible student (even

the dependent can claim the lifetime learning credit. You can't claim the credit

if entitled to claim the based on this
dependent) dependent's
expenses.

Expenses paid by dependent. If you claim on your tax return an eligible student who is your dependent, treat any expenses paid (or deemed paid) by your dependent as if you had paid them. Include these expenses when figuring the amount of your lifetime learning credit.



Qualified education expenses paid directly to an eligible educational institution for your dependent under a court-approved divorce decree are treated as paid by your dependent.

Expenses paid by you. If you claim a dependent who is an eligible student, only you can include any expenses you paid when figuring the amount of the lifetime learning credit. If neither you nor anyone else claims the dependent, only the dependent can

include any expenses you paid when figuring the lifetime learning credit.

Expenses paid by others. Someone other than you, your spouse, or your dependent (such as a relative or former spouse) may make a payment directly to an eligible educational institution to pay for an eligible student's qualified education expenses. In this case, the student is treated as receiving the payment from the other person and, in turn, paying the institution. If you claim the student as a dependent on your tax return, you are considered to have paid the expenses.

Example. In 2023, Todd's grandparent makes a payment directly to an eligible educational institution for Todd's qualified education expenses. For purposes of claiming a lifetime learning credit, Todd is treated as receiving the money from the grandparent and, in turn, paying the qualified education expenses.

Unless Todd is claimed as a dependent on someone else's 2023 tax return, only Todd can use the payment to claim a lifetime learning credit.

If anyone, such as Todd's parents, claims Todd on their 2023 tax return, whoever claims Todd may be able to use the expenses to claim a lifetime learning credit. If anyone else claims Todd, Todd can't claim a lifetime learning credit.

Tuition reduction. When an eligible educational institution provides a reduction in tuition to an employee of the institution (or spouse or dependent child of an employee), the amount of the reduction may or may not be taxable. If it is taxable, the employee is treated as receiving a payment of that amount and, in turn, paying it to the educational institution on behalf of the student. For more information on tuition reductions, see [Qualified Tuition Reduction](#) in chapter 1.

Figuring the Credit

The amount of the lifetime learning credit is 20% of the first \$10,000 of qualified education expenses you paid for all eligible students. The maximum amount of lifetime learning credit you can claim for 2023 is \$2,000 ($20\% \times \$10,000$). However, that amount may be reduced based on your MAGI. See [*Effect of the Amount of Your Income on the Amount of Your Credit*](#), later.

Example. Bruce and Toni are married and file a joint tax return. For 2023, their MAGI is \$75,000. Toni is attending a local college (an eligible educational institution) to earn credits toward a degree in nursing. Toni already has a bachelor's degree in history and wants to become a nurse. In August 2023, Toni paid \$5,000 of qualified education expenses for the fall 2023 semester. Bruce and Toni can claim a \$1,000 ($20\% \times \$5,000$) lifetime learning credit on their 2023 joint tax return.

Form 1098-T. To help you figure your lifetime learning credit, the student may receive Form 1098-T. Generally, an eligible educational institution (such as a college or university) must send Form 1098-T (or acceptable substitute) to each enrolled student by January 31, 2024. An institution will report payments received (box 1) for qualified education expenses. However, the amount on Form 1098-T might be different from what you paid. When figuring the credit, use only the amounts you paid or are deemed to have paid in 2023 for qualified education expenses.

In addition, Form 1098-T should give other information for that institution, such as adjustments made for prior years, the amount of scholarships or grants, reimbursements or refunds, and whether the student was enrolled at least halftime or was a graduate student.

The eligible educational institution may ask for a completed Form W9S or similar statement to obtain the student's name, address, and taxpayer identification number.

Effect of the Amount of Your Income on the Amount of Your Credit

The amount of your lifetime learning credit is phased out (gradually reduced) if your MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return). You can't claim a lifetime learning credit if your MAGI is \$90,000 or more (\$180,000 or more if you file a joint return).

Modified adjusted gross income (MAGI).

For most taxpayers, MAGI is adjusted gross income (AGI) as figured on their federal income tax return.

MAGI when using Form 1040 or 1040SR.

If you file Form 1040 or 1040SR, your MAGI is the AGI on line 11 of that form, modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion,
3. Foreign housing deduction,
4. Exclusion of income by bona fide residents of American Samoa, and
5. Exclusion of income by bona fide residents of Puerto Rico.

You can use Worksheet 31 to figure your MAGI.

Worksheet 3-1. **MAGI for the Lifetime Learning Credit**

1. Enter your adjusted gross income
(Form 1040 or 1040-SR, line 11) 1. _____
2. Enter your foreign earned
income exclusion and/or
housing exclusion (Form
2555, line 45) 2. _____
3. Enter your foreign housing
deduction (Form 2555,
line 50) 3. _____
4. Enter the amount of
income from Puerto Rico
you're excluding 4. _____
5. Enter the amount of
income from American
Samoa you're excluding
(Form 4563,
line 15) 5. _____
6. Add the amounts on
lines 2, 3, 4, and 5 6. _____
7. Add the amounts on lines 1 and 6.
This is your **modified adjusted gross
income**. Enter this amount
on Form 8863, line 14 7. _____

Phaseout. If your MAGI is within the range of incomes where the credit must be reduced, you will figure your reduced credit using lines 10–18 of Form 8863. The same method is shown in the following example.

Example. You are filing a joint return with a MAGI of \$161,000. In 2023, you paid \$6,600 of qualified education expenses.

You figure the tentative lifetime learning credit (20% of the first \$10,000 of qualified education expenses you paid for all eligible students). The result is a \$1,320 (20% x \$6,600) tentative credit.

Because your MAGI is within the range of incomes where the credit must be reduced, you must multiply your tentative credit (\$1,320) by a fraction. The numerator (top part) of the fraction is \$180,000 (the upper limit for those filing a joint return) minus your MAGI. The denominator (bottom part) is \$20,000, the range of incomes for the phaseout (\$160,000 to \$180,000). The result

is the amount of your phased-out (reduced) lifetime learning credit (\$1,254).

$$\text{\$1,320} \times \frac{\text{\$180,000} - \text{\$161,000}}{\text{\$20,000}} = \text{\$1,254}$$

Claiming the Credit

You claim the lifetime learning credit by completing Form 8863 and submitting it with your Form 1040 or 1040-SR. Enter the credit on Schedule 3 (Form 1040), line 3.

4.

Student Loan Interest Deduction

What's New

Modified adjusted gross income (MAGI) limits. For 2023, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between \$75,000 and \$90,000 (\$155,000 and \$185,000 if you file a joint return). You can't claim the deduction if your MAGI is \$90,000 or more (\$185,000 or more if you file a joint return). For more information, see [*Figuring the Deduction*](#).

Reminder

No double benefit allowed. You can't deduct as interest on a student loan any interest paid by your employer after March 27, 2020, and before January 1, 2026, under

an educational assistance program. See [No Double Benefit Allowed](#).

Introduction

Generally, personal interest you pay, other than certain mortgage interest, isn't deductible on your tax return. However, if your MAGI is less than \$90,000 (\$185,000 if filing a joint return), you may be allowed a special deduction for paying interest on a student loan (also known as an education loan) used for higher education. For most taxpayers, MAGI is the adjusted gross income (AGI) as figured on their federal income tax return before subtracting any deduction for student loan interest. This deduction can reduce the amount of your income subject to tax by up to \$2,500.

The student loan interest deduction is claimed as an adjustment to income. This means you can claim this deduction even if you don't

itemize deductions on Schedule A (Form 1040).

This chapter explains:

- What type of loan interest you can deduct,
- Whether you can claim the deduction,
- What expenses you must have paid with the student loan,
- Who is an eligible student,
- How to figure the deduction, and
- How to claim the deduction.

Table 4-1. **Student Loan Interest Deduction at a Glance**

This table summarizes the features of the student loan interest deduction.

Don't rely on this table alone. Refer to the text for more details.

Feature	Description
Maximum benefit	You can reduce your income subject to tax by up to \$2,500.
Loan qualifications	Your student loan: <ul style="list-style-type: none">• Must have been taken out solely to pay qualified education expenses, and• Can't be from a related person or made under a qualified employer plan.

Student qualifications	<p>The student must be:</p> <ul style="list-style-type: none"> · You, your spouse, or your dependent (as defined later for this purpose); and · Enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential at an eligible educational institution.
Limit on MAGI	<p>\$185,000 if married filing a joint return; \$90,000 if single, head of household, or qualifying surviving spouse.</p>

Student Loan Interest Defined

Student loan interest is interest you paid during the year on a qualified student loan. It includes both required and voluntary interest payments.

Qualified Student Loan

This is a loan you took out solely to pay qualified education expenses (defined later) that were:

- For you, your spouse, or a person who was your dependent (as defined later for this purpose) when you took out the loan;
- Paid or incurred within a reasonable period of time before or after you took out the loan; and
- For education provided during an academic period for an eligible student.

Loans from the following sources aren't qualified student loans.

- A related person.
- A qualified employer plan.

Your dependent. Generally, your dependent is someone who is either a:

- Qualifying child, or
- Qualifying relative.

You can find more information about dependents in Pub. 501.

For this purpose, the term “dependent” also includes any person you could have claimed as a dependent on your return except that:

- You, or your spouse if filing jointly, could be claimed as a dependent of another taxpayer (like on your parent’s tax return);
- The person filed a joint return; or
- The person had gross income for the year that was equal to or more than \$4,700 (for 2023).

Reasonable period of time. Qualified education expenses are treated as paid or incurred within a reasonable period of time before or after you take out the loan if they are paid with the proceeds of student loans that are part of a federal postsecondary education loan program.

Even if not paid with the proceeds of that type of loan, the expenses are treated as paid or incurred within a reasonable period of time if both of the following requirements are met.

- The expenses relate to a specific academic period.
- The loan proceeds are disbursed within a period that begins 90 days before the start of that academic period and ends 90 days after the end of that academic period.

If neither of the above situations applies, the reasonable period of time is usually determined based on all the relevant facts and circumstances.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. If an educational institution uses credit hours or clock hours and doesn't have academic terms, each payment period can be treated as an academic period.

Eligible student. An eligible student is a student who was enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential.

Enrolled at least half-time. A student was enrolled at least half-time if the student was taking at least half the normal full-time workload for their course of study.

The standard for what is half of the normal full-time workload is determined by each eligible educational institution. However, the standard may not be lower than any of those established by the U.S. Department of

Education under the Higher Education Act of 1965.

Related person. You can't deduct interest on a loan you get from a related person.

Related persons include:

- Your spouse;
- Your brothers and sisters;
- Your half brothers and half sisters;
- Your ancestors (parents, grandparents, etc.);
- Your lineal descendants (children, grandchildren, etc.); and
- Certain corporations, partnerships, trusts, and exempt organizations.