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2016

Instructions for Form 8863

Department of the Treasury
Internal Revenue Service

Education Credits (American Opportunity and Lifetime Learning Credits)

DRAFT ASOF August 20, 2016

General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Form 8863 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form8863*.

What's New

Taxpayer identification number needed by due date of return. If you don't have a taxpayer identification number (TIN) by the due date of your 2016 return (including extensions), you can't claim the American opportunity credit on either your original or an amended 2016 return, even if you later get a TIN. Also, the American opportunity credit isn't allowed on either your original or an amended 2016 return for a student who doesn't have a TIN by the due date of your return (including extensions), even if that student later gets a TIN.

Limits on modified adjusted gross income (MAGI). The lifetime learning credit MAGI limit increases to $131,000 if you are filing married filing jointly ($65,000 if you are filing single, head of household, or qualifying widow(er)). The American opportunity credit MAGI limits remain unchanged. See Table 1 and the instructions for line 3 or line 14.

Purpose of Form

Use Form 8863 to figure and claim your education credits, which are based on adjusted qualified education expenses paid to an eligible educational institution (postsecondary). For 2016, there are two education credits.

- The American opportunity credit, part of which may be refundable.
- The lifetime learning credit, which is nonrefundable.

A **refundable** credit can give you a refund even if you owe no tax and are not otherwise required to file a tax return. A **nonrefundable** credit can reduce your tax, but any excess is not refunded to you.

Table 1. **Comparison of Education Credits for 2016**

Caution. You can claim both the American opportunity credit and the lifetime learning credit on the same return, but not for the same student.

	American Opportunity Credit	**Lifetime Learning Credit**
Maximum credit	Up to $2,500 credit per **eligible student**	Up to $2,000 credit per **return**
Limit on modified adjusted gross income (MAGI)	$180,000 if married filing jointly; $90,000 if single, head of household, or qualifying widow(er)	$131,000 if married filing jointly; $65,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	40% of credit may be refundable; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available **ONLY** if the student had not completed the first 4 years of postsecondary education before 2016	Available for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available **ONLY** for **4** tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half time for at least one academic period beginning during 2016 (or the first 3 months of 2017 if the qualified expenses were paid in 2016)	Available for one or more courses
Felony drug conviction	As of the end of 2016, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2016 for academic periods beginning in 2016 or beginning in the first 3 months of 2017	
TIN needed by filing due date	Filers and students must have a TIN by the due date of their 2016 return (including extensions)	

Both of these credits have different rules that can affect your eligibility to claim a specific credit. These differences are shown in Table 1, earlier.

Who Can Claim an Education Credit

You may be able to claim an education credit if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. For 2016, the credits are based on the amount of adjusted qualified education expenses paid for the student in 2016 for academic periods beginning in 2016 or beginning in the first 3 months of 2017.

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Academic period. An academic period is any quarter, semester, trimester, or any other period of study as reasonably determined by an eligible educational institution. If an eligible educational institution uses credit hours or clock hours and does not have academic terms, each payment period may be treated as an academic period. For details, see *Academic period* in chapters 2 and 3 of Pub. 970.

Who can claim a dependent's expenses. If a student is claimed as a dependent on another person's tax return, all qualified education expenses of the student are treated as having been paid by that person. Therefore, only that person can claim an education credit for the student. If a student is not claimed as a dependent on another person's tax return, only the student can claim a credit.

Expenses paid by a third party. 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. However, 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 by the third party. For more information and an example, see *Who Can Claim a Dependent's Expenses* in Pub. 970, chapter 2 or 3.

Who cannot claim a credit. You cannot claim an education credit on a 2016 tax return if any of the following apply.

1. You are claimed as a dependent on another person's tax return, such as your parent's return.
2. Your filing status is married filing separately.
3. You (or your spouse) were a nonresident alien for any part of 2016 and did not elect to be treated as a resident alien for tax purposes.
4. Your MAGI is the following.
   a. For the American opportunity credit: $180,000 or more if married filing jointly, or $90,000 or more if single, head of household, or qualifying widow(er) with dependent child.
   b. For the lifetime learning credit: $131,000 or more if married filing jointly, or $65,000 or more if single, head of household, or qualifying widow(er) with dependent child.

Generally, your MAGI is the amount on your Form 1040, line 38, or Form 1040A, line 22. However, if you are filing Form 2555, Foreign Earned Income; Form 2555-EZ, Foreign Earned Income Exclusion; or Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa; or are excluding income from Puerto Rico, add to the amount on your Form 1040, line 38, or Form 1040A, line 22, the amount of income you excluded. For details, see Pub. 970.

American Opportunity Credit

You may be able to claim a credit of up to $2,500 for adjusted qualified education expenses (defined later) paid for each student who qualifies for the American opportunity credit. This credit equals 100% of the first $2,000 and 25% of the next $2,000 of adjusted qualified education expenses paid for each eligible student. The amount of your credit for 2016 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 cannot claim a credit if your MAGI is $90,000 or more ($180,000 or more if you file a joint return).

TIP *If you can 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 for the lifetime learning credit. If you have this choice, the American opportunity credit will always be greater than the lifetime learning credit.*

Student qualifications. Generally, you can claim the American opportunity credit for a student on a 2016 tax return only if **all** of the following four requirements are met.

1. As of the beginning of 2016, the student had not completed the first 4 years of postsecondary education (generally, the freshman through senior 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.

2. Neither the American opportunity credit nor the Hope scholarship credit has been claimed (by you or anyone else) for this student for any 4 tax years before 2016. If the American opportunity credit (and Hope scholarship credit) has been claimed for this student for any 3 or fewer tax years before 2016, this requirement is met.

Example 1. Sharon was eligible for the American opportunity credit for 2010, 2011, 2012, and 2015. Her parents claimed the American opportunity credit for Sharon on their 2010, 2011, and 2012 tax returns. Sharon claimed the American opportunity credit on her 2015 tax return. The American opportunity credit has been claimed for Sharon for 4 tax years before 2016. Therefore, the American opportunity credit **cannot** be claimed for Sharon for 2016. If Sharon were to file Form 8863 for 2016, she would check “Yes” for Part III, line 23, and would be eligible to claim only the lifetime learning credit.

Example 2. Wilbert was eligible for the American opportunity credit for 2012, 2013, 2014, and 2016. His parents claimed the American opportunity credit for Wilbert on their tax returns for 2012, 2013, and 2014. No one claimed an American opportunity credit or Hope scholarship credit for Wilbert for any other tax year. The American opportunity credit and Hope scholarship credit have been claimed for Wilbert for only 3 tax years before 2016. Therefore, Wilbert meets the second requirement to be eligible for the American opportunity credit. If Wilbert were to file Form 8863 for 2016, he would check “No” for Part III, line 23. If Wilbert meets all of the other requirements, he is eligible for the American opportunity credit.

3. For at least one academic period beginning or treated as beginning (see below) in 2016, the student both:

a. Was enrolled in a program that leads to a degree, certificate, or other recognized educational credential; and

b. Carried at least one-half the normal full-time workload for his or her course of study.

The standard for what is half of the normal full-time work load 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.

For 2016, treat an academic period beginning in the first 3 months of 2017 as if it began in 2016 if qualified education expenses for the student were paid in 2016 for that academic period. See *Prepaid Expenses,* later.

Example. Glenda enrolls on a full-time basis in a degree program for the 2016 Spring semester, which begins in January 2016. Glenda pays her tuition for the 2016 Spring semester in December 2015. Because the tuition Glenda paid in 2015 relates to an academic period that begins in the first 3 months of 2016, her eligibility to claim an American opportunity credit in 2015 is determined as if the 2016 Spring semester began in 2015. Therefore, Glenda satisfies this third requirement.

4. As of the end of 2016, the student had not been convicted of a federal or state felony for possessing or distributing a controlled substance.

5. Filers and students must have a TIN by the due date of their 2016 return (including extensions).

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TIP *If the requirements above are not met for any student, you cannot claim the American opportunity credit for that student. You may be able to claim the lifetime learning credit for part or all of that student's qualified education expenses instead.*

Lifetime Learning Credit

The lifetime learning credit equals 20% of adjusted qualified education expenses (defined later), up to a maximum of $10,000 of adjusted qualified education expenses per return. Therefore, 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 paid qualified education expenses. The amount of your credit for 2016 is gradually reduced (phased out) if your MAGI is between $55,000 and $65,000 ($111,000 and $131,000 if you file a joint return). You cannot claim a credit if your MAGI is $65,000 or more ($131,000 or more if you file a joint return).

You cannot claim the lifetime learning credit for any student if you claim the American opportunity credit for that student for the same tax year.

Qualified Education Expenses

Generally, qualified education expenses are amounts paid in 2016 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 or debit card, or with borrowed funds.

For course-related books, supplies, and equipment, only certain expenses qualify.

- American opportunity credit: Qualified education expenses include amounts spent on books, supplies, and equipment needed for a course of study, whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.
- Lifetime learning credit: Qualified education expenses include amounts for books, supplies, and equipment **only if** required to be paid to the institution as a condition of enrollment or attendance.

Qualified education expenses include nonacademic fees, such as student activity fees, athletic fees, or other expenses unrelated to the academic course of instruction, **only if** the fee must be paid to the institution as a condition of enrollment or attendance. However, fees for personal expenses (described below) are never qualified education expenses.

Qualified education expenses **do not** include amounts paid for the following.

- Personal expenses. This means room and board, insurance, medical expenses (including student health fees), transportation, and other similar personal, living, or family expenses.
- 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 may receive Form 1098-T, Tuition Statement, from the institution reporting either payments received in 2016 (box 1) or amounts billed in 2016 (box 2). However, the amount in box 1 or 2 of Form 1098-T may be different from the amount you paid (or are treated as having paid). In completing Form 8863, use only the amounts you actually paid (plus any amounts you are treated as having paid) in 2016 (reduced, as necessary, as described in *Adjusted Qualified Education Expenses,* later). See chapters 2 and 3 of Pub. 970 for more information on Form 1098-T.

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. 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.

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

CAUTION *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 (section 529 plan) that is excluded from gross income. See Pub. 970, chapters 6 and 7, for more information.*

Prepaid Expenses

Qualified education expenses paid in 2016 for an academic period that begins in the first 3 months of 2017 can be used in figuring an education credit for 2016 only. See *Academic period,* earlier. For example, if you pay $2,000 in December 2016 for qualified tuition for the 2017 winter quarter that begins in January 2017, you can use that $2,000 in figuring an education credit for 2016 only (if you meet all the other requirements).

CAUTION *You cannot use any amount you paid in 2015 or 2017 to figure the qualified education expenses you use to figure your 2016 education credit(s).*

Adjusted Qualified Education Expenses

For each student, reduce the qualified education expenses paid in 2016 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 2016, 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.

Tax-free educational assistance includes:

1. The tax-free part of any scholarship or fellowship grant (including Pell grants);

2. The tax-free part of any employer-provided educational assistance;

3. Veterans' educational assistance; and

4. Any other educational assistance that is excludable from gross income (tax free), other than as a gift, bequest, devise, or inheritance.

TIP *You may be able to increase the combined value of an education credit and certain educational assistance if the student includes some or all of the educational assistance in income in the year it is received.*

Generally, any scholarship or fellowship grant is treated as tax-free educational assistance. However, a scholarship or fellowship grant is not treated as tax-free educational assistance 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:

- 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, or
- 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.

CAUTION *A student cannot 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 section 5.02(2)(b)(ii) of Rev. Proc. 2014-35, available at www.irs.gov/irb/2014-26_IRB/ar10.html.*

Coordination with Pell grants and other scholarships or fellowship grants. You may be able to increase an education credit and reduce your total tax or increase your tax refund if the student (you, your spouse, or your dependent) chooses to include all or part of certain scholarships or fellowship grants in income. The scholarship or fellowship grant must be one that may qualify as a tax-free scholarship under the rules discussed in chapter 1 of Pub. 970. Also, the scholarship or fellowship grant must be one that may (by its terms) be used for expenses other than qualified education expenses (such as room and board).

The fact that the educational institution applies the scholarship or fellowship grant to qualified education expenses (such as tuition and related fees) does not prevent the student from choosing to apply certain scholarships or fellowship grants to other expenses (such as room and board). By choosing to do so, the student will include the part applied to other expenses (such as room and board) in gross income and may be required to file a tax return. However, 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. These payments, unlike certain scholarships or fellowship grants, will not reduce the qualified education expenses available to figure an education credit. The result is generally a larger education credit that reduces your total tax or increases your tax refund.

Example 1. Last year, your child graduated from high school and enrolled in college for the fall semester. You and your child meet all other requirements to claim the American opportunity credit, and you need to determine adjusted qualified education expenses to figure the credit.

Your child has $5,000 of qualified education expenses and $4,000 of room and board. Your child received a $5,000 Pell grant and took out a $2,750 student loan to pay these expenses. You paid the remaining $1,250. The Pell grant by its terms may be used for any of these expenses.

If you and your child choose to apply the Pell grant to the qualified education expenses, it will qualify as a tax-free scholarship under the rules discussed in chapter 1 of Pub. 970. Your child will not include any part of the Pell grant in gross income. After reducing qualified education expenses by the tax-free scholarship, you will have $0 ($5,000 – $5,000) of adjusted qualified education expenses available to figure your credit. Your credit will be $0.

Example 2. The facts are the same as in *Example 1*. If, unlike in *Example 1*, you and your child choose to apply only $1,000 of the Pell grant to the qualified education expenses and to apply the remaining $4,000 to room and board, only $1,000 will qualify as a tax-free scholarship.

Your child will include the $4,000 applied to room and board in gross income, and it will be treated as earned income for purposes of determining whether your child is required to file a tax return. If the $4,000 is your child's only income, your child will not be required to file a tax return.

After reducing qualified education expenses by the tax-free scholarship, you will have $4,000 ($5,000 – $1,000) of adjusted qualified education expenses available to figure your credit. Your refundable American opportunity credit will be $1,000. Your nonrefundable credit may be as much as $1,500, but depends on your tax liability.

If you are not otherwise required to file a tax return, you should file to get a refund of your $1,000 refundable credit, but your tax liability and nonrefundable credit will be $0.

Note. The result may be different if your child has other income or if you are the student. If you are the student and you claim the earned income credit, choosing not to apply a Pell grant to qualified education expenses may decrease your earned income credit at certain income levels by raising your adjusted gross income. However, you generally need at least $2,000 of adjusted qualified education expenses to receive the maximum benefit of claiming both credits. For details and more examples, see Pub. 970.

TIP *Unlike a scholarship or fellowship grant, a tax-free distribution from a Coverdell ESA or qualified tuition program (section 529 plan) can be applied to either qualified education expenses or certain other expenses (such as room and board) without creating a tax liability for the student. An education credit can be claimed in the same year the beneficiary takes a tax-free distribution from a Coverdell ESA or qualified tuition program, as long as the same expenses are not used for both benefits. For details, see Pub. 970, chapter 7 or 8.*

Tax-free educational assistance treated as a refund. Some tax-free educational assistance received after 2016 may be treated as a refund of qualified education expenses paid in 2016. This tax-free educational assistance is any tax-free educational assistance received by you or anyone else after 2016 for qualified education expenses paid on behalf of a student in 2016 (or attributable to enrollment at an eligible educational institution during 2016).

If this tax-free educational assistance is received after 2016, but before you file your 2016 income tax return, see *Refunds received after 2016, but before your income tax return is filed,* later. If this tax-free educational assistance is received after 2016 and after you file your 2016 income tax return, see *Refunds received after 2016 and after your income tax return is filed,* later.

Refunds. A refund of qualified education expenses may reduce qualified education expenses for the tax year or may require you to repay (recapture) the credit that you claimed in an earlier year. Some tax-free educational assistance received after 2015 may be treated as a refund. See *Tax-free educational assistance treated as a refund,* earlier.

Refunds received in 2016. For each student, figure the adjusted qualified education expenses for 2016 by adding all the qualified education expenses paid in 2016 and subtracting any

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refunds of those expenses received from the eligible educational institution during 2016.

Refunds received after 2016, but before your income tax return is filed. If anyone receives a refund after 2016 of qualified education expenses paid on behalf of a student in 2015 and the refund is received before you file your 2016 income tax return, reduce the amount of qualified education expenses for 2016 by the amount of the refund.

Refunds received after 2016 and after your income tax return is filed. If anyone receives a refund after 2016 of qualified education expenses paid on behalf of a student in 2016 and the refund is received after you file your 2016 income tax return, you may need to repay some or all of the credit that you claimed. See *Credit recapture* next.

Credit recapture. If any tax-free educational assistance for the qualified education expenses paid in 2016, or any refund of your qualified education expenses paid in 2016, is received after you file your 2016 income tax return, you must recapture (repay) any excess credit. You do this by refiguring the amount of your adjusted qualified education expenses for 2016 by reducing the expenses by the amount of the refund or tax-free educational assistance. You then refigure your education credit(s) for 2016 and figure the amount by which your 2016 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 paid $8,000 tuition and fees in December 2016 for your child's Spring semester beginning in January 2017. You filed your 2016 tax return on February 2, 2017, and claimed a lifetime learning credit of $1,600 ($8,000 qualified education expense paid x 0.20). You claimed no other tax credits. After you filed your return, your child withdrew from two courses and you received a refund of $1,400. You must refigure your 2016 lifetime learning credit using $6,600 ($8,000 qualified education expenses – $1,400 refund). The refigured credit is $1,320 and your tax liability increased by $280. You must include the difference of $280 ($1,600 credit originally claimed – $1,320 refigured credit) as additional tax on your 2017 income tax return. See the instructions for your 2017 income tax return to determine where to include this tax.

TIP *If you paid qualified education expenses in both 2016 and 2017 for an academic period that begins in the first 3 months of 2017 and you receive tax-free educational assistance, or a refund, as described above, you may choose to reduce the qualified education expenses you paid in 2017 instead of reducing the qualified education expenses you paid in 2016.*

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.

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 Department of Education.

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

Additional Information

See Pub. 970, chapters 2 and 3, for more information about these credits.

Specific Instructions

CAUTION ***You must complete a separate Part III on page 2 for each individual for whom you are claiming either credit before you complete Parts I and II.***

Part I — Refundable American Opportunity Credit

Line 1

Enter the amount from Part III, line 30. If you are claiming the American opportunity credit for more than one student, add the amounts from each student's Part III, line 30, and enter the total for those students on line 1.

Line 3

Enter your modified adjusted gross income. Generally, your modified adjusted gross income is the amount on your Form 1040, line 38, or Form 1040A, line 22. However, if you are filing Form 2555, Form 2555-EZ, or Form 4563, or are excluding income from Puerto Rico, you must include on line 3 the amount of income you excluded. For details, see Pub. 970.

Line 7

If you were under age 24 at the end of 2016 and the conditions listed below apply to you, you **cannot** claim any part of the American opportunity credit as a refundable credit on your tax return. Instead, you can claim your allowed credit, figured in Part II, only as a nonrefundable credit to reduce your tax.

You do **not** qualify for a refundable American opportunity credit if 1 (a, b, or c), 2, and 3 below apply to you.

1. You were:
   a. Under age 18 at the end of 2016, **or**
   b. Age 18 at the end of 2016 **and** your earned income (defined later) was less than one-half of your support (defined later), **or**
   c. Over age 18 and under age 24 at the end of 2016 **and** a full-time student (defined later) **and** your earned income (defined later) was less than one-half of your support (defined later).
2. At least one of your parents was alive at the end of 2016.
3. You are not filing a joint return for 2016.

If you meet these conditions, check the box next to line 7, skip line 8, and enter the amount from line 7 on line 9. If these conditions do not apply to you, complete line 8.

You can answer the following questions to determine whether you qualify for a refundable American opportunity credit.

1. Were you under age 24 at the end of 2016?

   If no, stop here; you **do** qualify to claim part of the allowable American opportunity credit as a refundable credit.
   If yes, go to question 2.
2. Were you over age 18 at the end of 2016?

   If yes, go to question 3.
   If no, go to question 4.
3. Were you a full-time student (defined later) for 2016?

   If no, stop here; you **do** qualify to claim part of your allowable American opportunity credit as a refundable credit.
   If yes, go to question 5.

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4. Were you age 18 at the end of 2016?

If yes, go to question 5.
If no, go to question 6.

5. Was your earned income (defined later) less than one-half of your support (defined later) for 2016?

If no, stop here; you **do** qualify to claim part of your allowable American opportunity credit as a refundable credit.
If yes, go to question 6.

6. Were either of your parents alive at the end of 2016?

If no, stop here; you **do** qualify to claim part of your allowable American opportunity credit as a refundable credit.
If yes, go to question 7.

7. Are you filing a joint return for 2016?

If no, you **do not** qualify to claim part of your allowable American opportunity credit as a refundable credit.
If yes, you **do** qualify to claim part of your allowable American opportunity credit as a refundable credit.

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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 does not 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 is not an income-producing factor and your personal services produced the business income, the 30% limit does not apply.

Support. Your support includes food, shelter, clothing, medical and dental care, education, and the like. Generally, the amount of an 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. To figure your support, count support provided by you, your parents, and others. However, a scholarship received by you is not considered support if you were a full-time student (defined below) for 2016.

Full-time student. Solely for purposes of determining whether a scholarship is considered support, you were a full-time student for 2016 if during any part of any 5 calendar months during the year you were enrolled as a full-time student at an eligible educational institution (defined earlier), or took a full-time, on-farm training course given by such an institution or by a state, county, or local government agency.

Part II — Nonrefundable Education Credits

Line 9

Enter the amount from line 9 on the Credit Limit Worksheet, line 2, later.

Line 10

Enter the amount from Part III, line 31. If you are claiming the lifetime learning credit for more than one student, add the amounts from each student's Part III, line 31, and enter the total for all those students on line 10.

Line 14

Generally, your modified adjusted gross income is the amount on your Form 1040, line 38, or Form 1040A, line 22. However, if you are filing Form 2555, Form 2555-EZ, or Form 4563, or are excluding income from Puerto Rico, you must include on line 14 the amount of income you excluded. For details, see Pub. 970.

Line 18

Enter the amount from line 18 on the Credit Limit Worksheet, line 1, later.

Line 19

Enter the amount from line 7 of the Credit Limit Worksheet here and on Form 1040, line 50; or Form 1040A, line 33.

Credit Limit Worksheet

Complete this worksheet to figure the amount to enter on line 19.

1.	Enter the amount from Form 8863, line 18	**1.** _____
2.	Enter the amount from Form 8863, line 9	**2.** _____
3.	Add lines 1 and 2	**3.** _____
4.	Enter the amount from: Form 1040, line 47; or Form 1040A, line 30	**4.** _____
5.	Enter the total of your credits from either: Form 1040, lines 48 and 49, and Schedule R, line 22; or Form 1040A, lines 31 and 32	**5.** _____
6.	Subtract line 5 from line 4	**6.** _____
7.	Enter the smaller of line 3 or line 6 here and on Form 8863, line 19	**7.** _____

CAUTION *You must complete Part III for each student for whom you are claiming either the American opportunity credit or lifetime learning credit before you complete either Part I or Part II. Use additional copies of page 2 as needed for each student.*

Part III — Student and Educational Institution Information

Line 20

Enter the student's name as shown on page 1 of your tax return.

Line 21

Enter the student's taxpayer identification number as shown on page 1 of your tax return.

Line 22

If the student attended only one educational institution, enter the information about the institution and answer the questions about Form 1098-T in column (a). If the student attended a second educational institution, enter the information and answers for the second educational institution in column (b). If the student attended more than two educational institutions, attach an additional page 2 completed only through line 22.

If the educational institution has a foreign address, enter the foreign address here and do not abbreviate the country name. Follow the country's practice for entering the postal code and name of the province, country, or state.

Line 23

If the American opportunity credit has been claimed for this student for any 4 tax years before 2016 (including any year for which the Hope scholarship credit was claimed for the student), the American opportunity credit cannot be claimed for this student for 2016. Check "Yes" and go to line 31.

If the American opportunity and Hope scholarship credits have been claimed for this student for 3 or fewer prior tax years, check "No." See *Student qualifications,* earlier.

Line 24

Check "Yes" if the student enrolled at least half-time for at least one academic period that began or is treated as having begun (see below) in 2016 at an eligible educational institution in a program leading towards a postsecondary degree, certificate, or other recognized postsecondary educational credential. Otherwise, check "No."

If any qualified education expenses for the student were paid in 2016 for an academic period beginning in the first 3 months of 2017, treat that academic period as if it began in 2016. See *Student qualifications* and *Prepaid Expenses,* earlier.

If you checked "Yes," go to line 25. If you checked "No," the student is not eligible for the American opportunity credit; skip lines 25 through 30 and go to line 31.

Line 25

Check "Yes" if the student completed the first 4 years of postsecondary education before 2016. Otherwise, check "No."

A student has completed the first 4 years of postsecondary education before 2016 if the educational institution has awarded the student 4 years of academic credit at that institution for postsecondary coursework the student completed before 2016. Disregard any academic credit awarded solely on the basis of the student's performance on proficiency examinations.

If you checked "No," go to line 26. If you checked "Yes," the student is not eligible for the American opportunity credit; skip lines 26 through 30 and go to line 31.

Line 26

Check "Yes" if the student was convicted, before the end of 2015, of a federal or state felony for possession or distribution of a controlled substance.

If you checked "No," complete lines 27 through 30 for this student. If you checked "Yes," the student is not eligible for the American opportunity credit; skip lines 26 through 30 and go to line 31.

CAUTION *You **cannot** claim the American opportunity credit and the lifetime learning credit for the **same student** in the same year. If you complete lines 27 through 30 for this student, do not complete line 31.*

American Opportunity Credit

Line 27

Enter the student's adjusted qualified education expenses for line 27. See *Qualified Education Expenses,* earlier. Use the Adjusted Qualified Education Expenses Worksheet, later, to figure each student's adjusted qualified education expenses. Do not enter more than $4,000. Enter the total of all amounts from all Parts III, line 30, on Part I, line 1.

Lifetime Learning Credit

Line 31

Enter the student's adjusted qualified education expenses on line 31. See *Qualified Education Expenses,* earlier. Use the Adjusted Qualified Education Expenses Worksheet next to figure each student's adjusted qualified education expenses. Enter the total of all amounts from Part III, line 31, on Part II, line 10.

Adjusted Qualified Education Expenses Worksheet

See *Qualified Education Expenses*, earlier, before completing.

Complete a separate worksheet for each student for each academic period beginning or treated as beginning (see below) in 2016 for which you paid (or are treated as having paid) qualified education expenses in 2016.

1. Total qualified education expenses paid for or on behalf of the student in 2016 for the academic period		_____
2. Less adjustments:		
a. Tax-free educational assistance received in 2016 allocable to the academic period	_____	
b. Tax-free educational assistance received in 2017 (and before you file your 2016 tax return) allocable to the academic period . . .	_____	
c. Refunds of qualified education expenses paid in 2016 if the refund is received in 2016 or in 2017 before you file your 2016 tax return	_____	
3. Total adjustments (add lines 2a, 2b, and 2c)		_____
4. Adjusted qualified education expenses. Subtract line 3 from line 1. If zero or less, enter -0-		_____

CAUTION *If you are claiming an education credit for more than one student, complete a separate Part III for each student before returning to page 1 to complete Parts I and II.*

If any qualified education expenses for the student were paid in 2016 for an academic period beginning in the first 3 months of 2017, treat that academic period as if it began in 2016. See *Student qualifications* and *Prepaid Expenses*, earlier.

DRAFT AS OF August 26, 2016