

Education Credits (Hope and Lifetime Learning Credits)

2004

Department of the Treasury
Internal Revenue Service (99)

▶ See instructions.
▶ Attach to Form 1040 or Form 1040A.

Attachment
Sequence No. **50**

Name(s) shown on return

Your social security number

Caution: You **cannot** take both an education credit and the tuition and fees deduction (Form 1040, line 27, or Form 1040A, line 19) for the **same student** in the same year.

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

1	(a) Student's name (as shown on page 1 of your tax return) First name ----- Last name	(b) Student's social security number (as shown on page 1 of your tax return)	(c) Qualified expenses (see instructions). Do not enter more than \$2,000 for each student.	(d) Enter the smaller of the amount in column (c) or \$1,000	(e) Subtract column (d) from column (c)	(f) Enter one-half of the amount in column (e)

2 Add the amounts in columns (d) and (f) **2**

3 Tentative Hope credit. Add the amounts on line 2, columns (d) and (f). If you are taking the lifetime learning credit for another student, go to Part II; otherwise, go to Part III ▶ **3**

Part II Lifetime Learning Credit

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

5 Add the amounts on line 4, column (c), and enter the total **5**

6 Enter the **smaller** of line 5 or \$10,000 **6**

7 Tentative lifetime learning credit. Multiply line 6 by 20% (.20) and go to Part III . . ▶ **7**

Part III Allowable Education Credits

8 Tentative education credits. Add lines 3 and 7	8	
9 Enter: \$105,000 if married filing jointly; \$52,000 if single, head of household, or qualifying widow(er)	9	
10 Enter the amount from Form 1040, line 37*, or Form 1040A, line 22	10	
11 Subtract line 10 from line 9. If zero or less, stop ; you cannot take any education credits	11	
12 Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	12	
13 If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places)	13	× .
14 Multiply line 8 by line 13 ▶	14	
15 Enter the amount from Form 1040, line 45, or Form 1040A, line 28	15	
16 Enter the total, if any, of your credits from Form 1040, lines 46 through 48, or Form 1040A, lines 29 and 30	16	
17 Subtract line 16 from line 15. If zero or less, stop ; you cannot take any education credits ▶	17	
18 Education credits. Enter the smaller of line 14 or line 17 here and on Form 1040, line 49, or Form 1040A, line 31 ▶	18	

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

General Instructions

Purpose of Form

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

- The Hope credit and
- The lifetime learning credit.

Who Can Take the Credits

You may be able to take the credits if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. The credits are based on the amount of qualified expenses paid for the student in 2004 for academic periods beginning in 2004 and the first 3 months of 2005.



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

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

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

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

- You are claimed as a dependent on another person's tax return, such as your parent's return (but see the *Note* above).
- Your filing status is married filing separately.
- Your adjusted gross income on Form 1040, line 37, or Form 1040A, line 22, is (a) \$105,000 or more if married filing jointly, or (b) \$52,000 or more if single, head of household, or qualifying widow(er).
- You are taking a deduction for tuition and fees on Form 1040, line 27, or Form 1040A, line 19, for the same student.
- You (or your spouse) were a nonresident alien for any part of 2004 and the nonresident alien did not elect to be treated as a resident alien.

Additional Information

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

Rules That Apply to Both Credits

What Expenses Qualify?

Generally, qualified expenses are amounts paid in 2004 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, by credit card, or with borrowed funds.

Qualified expenses do not include amounts paid for:

- Room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.

- Course-related books, supplies, equipment, and nonacademic activities, except for fees required to be paid to the institution as a condition of enrollment or attendance.
- Any course or other education involving sports, games, or hobbies, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student to acquire or improve job skills.

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



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

Tax-Free Educational Assistance and Refunds of Qualified Expenses

Tax-free educational assistance includes a tax-free scholarship or Pell grant or tax-free employer-provided educational assistance.

You must reduce the total of your qualified expenses by any tax-free educational assistance and by any refunds of qualified expenses. If the refund or tax-free assistance is received in the same year in which the expenses were paid or in the following year before you file your tax return, reduce your qualified expenses by the amount received and figure your education credits using the reduced amount of qualified expenses. If the refund or tax-free assistance is received after you file your return for the year in which the expenses were paid, you must figure the amount by which your education credits would have been reduced if the refund or tax-free assistance had been received in the year for which you claimed the education credits. Include that amount as an additional tax for the year the refund or tax-free assistance was received on the tax line of your 2004 tax return (Form 1040, line 43, or Form 1040A, line 28). Enter the amount and "ECR" next to that line.

Example. You paid \$2,250 tuition on December 26, 2003, and your child began college on January 27, 2004. You filed your 2003 tax return on February 2, 2004, and claimed a Hope credit of \$1,500. After you filed your return, your child dropped two courses (but maintained one-half of a full-time workload), and you received a refund of \$750. You must refigure your 2003 Hope credit using \$1,500 of qualified expenses instead of \$2,250. The refigured credit is \$1,250. You must include the difference of \$250 on your 2004 Form 1040, line 43, or Form 1040A, line 28.

Prepaid Expenses

Qualified expenses paid in 2004 for an academic period that begins in the first 3 months of 2005 can be used in figuring your 2004 education credits. For example, if you pay \$2,000 in December 2004 for qualified tuition for the 2005 winter quarter that begins in January 2005, you can use that \$2,000 in figuring your 2004 education credits (if you meet all the other requirements).



You cannot use any amount paid in 2003 or 2005 to figure your 2004 education credits.

What Is an Eligible Educational Institution?

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

Specific Instructions

Part I Hope Credit

You may be able to take a credit of up to \$1,500 for qualified expenses (defined earlier) paid for each student who qualifies for the Hope credit. You can take the Hope credit for a student if all of the following apply.

- As of the beginning of 2004, the student had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore years of college), as determined by the eligible educational institution. For this purpose, do not include academic credit awarded solely because of the student's performance on proficiency examinations.
- The student was enrolled in 2004 in a program that leads to a degree, certificate, or other recognized educational credential.
- The student was taking at least one-half the normal full-time workload for his or her course of study for at least one academic period beginning in 2004.
- The Hope credit was not claimed for that student's expenses in more than one prior tax year.
- The student has not been convicted of a felony for possessing or distributing a controlled substance.



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

Line 1

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

Column (c)

Enter only qualified expenses paid for the student in 2004 for academic periods beginning after 2003 but before April 1, 2005, as explained earlier. If the student's expenses are more than \$2,000, enter \$2,000.

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

Part II Lifetime Learning Credit

The maximum lifetime learning credit for 2004 is \$2,000, regardless of the number of students.



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

Line 4

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

Column (c)

Enter only qualified expenses paid for the student in 2004 for academic periods beginning after 2003 but before April 1, 2005, as explained earlier.

Note. If you are taking the lifetime learning credit for more than three students, enter "See attached" next to line 4 and attach a statement with the required information for each additional student. Include the totals from line 4, column (c), for all students in the amount you enter on line 5.

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

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

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 12 min.; **Learning about the law or the form**, 8 min.; **Preparing the form**, 32 min.; **Copying, assembling, and sending the form to the IRS**, 33 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the Instructions for Form 1040 or Form 1040A.