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Be An Educated Preparer on Education Credits





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Let's Talk Education Credits

- What's new for 2012
- AOTC (American Opportunity Credit)
- Lifetime Learning Credit
- Credit Comparisons
- What's New with Form 8863
- Interview Best Practices
- Additional Resources





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What's New for 2012 Filing Season?

- Revised Form 8863
- Last year to claim AOTC
- Hope Credit returns in 2013
- Lifetime Learning Credit phase out amounts have changed
- Reminder - Tuition and Fees Deduction





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Education Credits Overview

AOTC (American Opportunity
Credit)

Lifetime Learning Credit





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Who Qualifies?

Your client must meet all three of the following:

- Pay qualified expenses of higher education
- Pay the education expenses for a qualified student
- Must pay the expenses for themselves, their spouse, or for a dependent





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Who Does Not Qualify

Your client cannot claim the credit if any of the following are true:

- Files married filing separately
- Is listed as a dependent on another person's return
- Your client or client's spouse were a nonresident alien for any part of 2012 and did not choose to be treated as a resident alien





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Funds that Qualify

our client **does not have to reduce** the amount of expenses paid by the following:

- Payments for services, such as wages
- A loan
- A gift
- An Inheritance, or
- A withdrawal from student's personal savings
- Taxable scholarships or fellowships





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Basic Qualifying Education Expense Requirements

Expenses paid:

- For an academic period beginning in 2012 or the first three months of 2013
- With funds from a loan in the year the expenses are paid
- That are not refunded if a student withdraws from the class or classes





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Adjusting Education Expenses

Your client has to **reduce** the amount of expenses paid by the following:

- Tax-free educational assistance
 - Tax free part of scholarships and fellowships
 - Pell grants
 - Veterans educational assistance
 - Any other nontaxable payments (other than gifts or inheritances) for educational assistance
- Refund
- Recapture





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Expenses that **Do Not** Qualify

- Insurance
- Medical expenses (including student health fees)
- Room and Board
- Transportation
- Personal, Living, or Family Expenses
- Sports, games, hobbies, and noncredit courses unless included in course of instruction





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No Double Credits

If you claim one, you can't claim any other for the same student and same qualifying expenses:

- AOTC or Lifetime Learning Credit
- Business expense
- Tax-free portion of a distribution from
 - Coverdale education savings account
 - Qualified tuition program
- Paid with tax-free education assistance
 - Scholarship
 - Grant
 - Employer assistance





Form 1098-T

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8383

VOID CORRECTED

FILER'S name, street address, city, state, ZIP code, and telephone number		1 Payments received for qualified tuition and related expenses \$	OMB No. 1545-1574 2012 Form 1098-T	Tuition Statement Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2012 General Instructions for Certain Information Returns.
		2 Amounts billed for qualified tuition and related expenses \$		
FILER'S federal identification no.	STUDENT'S social security number	3 Check if you have changed your reporting method for 2012 <input type="checkbox"/>		
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$	7 Check this box if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2013 <input type="checkbox"/>	
City, state, and ZIP code				
Service Provider/Acct. No. (see Instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund \$	

Form 1098-T

Cat. No. 25087J

Department of the Treasury - Internal Revenue Service

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AOTC Enhances the “Hope Credit” Through 2012

- Added more qualifying expenses
- Allows the credit to be claimed for more years
- The credit is available to individuals with a higher adjusted gross income
 - Starts to phase out at \$80,000 for individuals or \$160,000 for married couples filing a joint return
 - Completely phases out at \$90,000 for individuals or \$180,000 for married couples filing a joint return
- 40% of the credit is refundable, up to \$1,000





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Who Qualifies for AOTC?

In addition to basic requirements, student must:

- Be pursuing an undergraduate degree or other recognized education credential
- Attend at least half time for one academic period starting during 2012
- Not have felony drug conviction on record





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Claiming the AOTC

- Use Form 1098-T
- Must file Form 8863
- Know the MAGI limitations





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Calculating the AOTC

- 100% of the first \$2,000, plus 25% of the next \$2,000
- Maximum amount of allowable expenses is \$4,000
- Maximum Credit is \$2,500





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Lifetime Learning Credit

- Up to \$2,000 per **return**
- Non-refundable
- Limit on MAGI
- Available for **all years** of postsecondary education and for courses taken to **acquire or improve job skills**
- Available for **one or more** courses
- Felony drug convictions are permitted





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Calculating the Lifetime Learning Credit

- 20% of the first \$10,000 of qualified education expenses
- Credit is phased out based on MAGI.
 - Single or HOH phase out starts at \$52,000 phased out at \$62,000
 - MFJ phase out starts at \$104,000 phased out at \$124,000





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Compare the Credits

AOTC	Lifetime Learning Credit
<ul style="list-style-type: none">- Up to \$2,500 credit per student- 40% of credit up to \$1,000 may be refundable	<p>Up to \$2,000 credit per tax return</p>



Compare Allowable Qualifying Education Expenses

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AOTC	Lifetime Learning Credit
<p>Includes course-related books, supplies, and equipment</p>	<p>Generally does not include course-related expenses</p>





Compare the Level of Education that Qualifies

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AOTC	Lifetime Learning Credit
<ul style="list-style-type: none">-1st four years of postsecondary education-Can still be a graduate student if within first 4 years of postsecondary education	<ul style="list-style-type: none">-Undergraduate-Graduate-Courses may be taken to acquire or improve job skills



Compare the Income Range and Phase Out

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AOTC	Lifetime Learning Credit
-\$80,000 to \$90,000	-\$52,000 to \$62,000
-\$160,000 to \$180,000 for MFJ	-\$104,000 to \$124,000 for MFJ



Claiming Education Tax Credits

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AOTC	Lifetime Learning Credit
<p>Complete Form 8863 Parts I and III</p>	<p>Complete Form 8863 Parts II and III</p>



Are You Smarter Than a College Freshman?

Scenario 1

Scenario 2

Scenario 3

Scenario 4

Scenario 1

Your client is single and made \$80K last year with \$4K of qualifying education expenses. During your interview with your client, you review their Form 1098-T. You notice that your client's Form 1098-T indicates graduate student.

Does your client qualify for the American Opportunity Tax Credit ?

- A. Yes B. No C. Need more information

Scenario 1 Answer

Answer

C. Need more information. You would need to ask more questions to determine eligibility.

Why?

Your client may be within their first 4 years of postsecondary education.

Extra Credit

What if your student has completed 4 years of under graduate studies?
What credit does your client qualify for?

- A. American Opportunity Tax Credit
- B. Lifetime Learning Credit
- C. A and B
- D. None of the above

Extra Credit Answer

Answer: D. None of the Above

Why?

Although the Lifetime Learning Credit can be for any year past the first four years of postsecondary education, As single, the credit is completely phased out after \$62,000.

Scenario 2

John is working on an undergraduate degree. He has education expenses for tuition of \$15K. He pays these funds with \$5K from his grandparents, \$5K from a student loan and \$5K from a Pell Grant. How much are his qualified education expenses?

- A. \$5K
- B. \$10K
- C. \$15K
- D. Nothing, he doesn't have any qualified expenses.

Scenario 2 Answer

Answer
B. \$10K

Why?

Tuition is a qualified expense. The loan was used for tuition. And a Pell grant is non taxable and therefore not a qualified expense for AOTC. Don't forget that the grandparent gift of \$5K is included in the total amount.

Extra Credit

What is the maximum amount of expenses needed to claim the maximum AOTC?

A. \$2,500

B. \$4,000

C. \$10,000

Extra Credit Answer

B. \$4,000

Why?

Because it is 100% of the first \$2,000 and 25% of the next \$2,000 of expenses.

Scenario 3

Sarah is working on an undergraduate degree. She has education expenses for tuition of \$5K. Her Form 1098-T she receives from her school does not have box 8 checked listing her as at least a half-time student. What education credit can she take?

- A. American Opportunity Tax Credit
- B. Lifetime Learning Credit
- C. A and B
- D. None of the above

Scenario 3 Answer

If you selected, B, You are Correct!

Why?

You don't have to be a $\frac{1}{2}$ time student to claim Lifetime Learning Credit. However, you must be enrolled in at least one or more courses.

Extra Credit

Sarah is now a full-time student and is filing as Married Filing Separate. What education credit does she qualify for?

- A. AOTC
- B. Lifetime Learning Credit
- C. A and B
- D. None of the Above

Extra Credit Answer

D. None of the above.

Why?

Education Credits are not available to those who file Married Filing Separate.

Scenario 4

Your client received a Form 1098-T for her dependent daughter. Her daughter is a high school student who participates in a state funded program for qualified high school students to enroll in college classes. Is she eligible to claim AOTC?

- A. Yes
- B. No
- C. You need more information

Scenario 4 Answer

No.

Why?

This was state funded, your client did not pay for the expenses even though they received a Form 1098-T. If the college maintains a separate financial account for the student, then the school must file the Form 1098-T even if the institution only bills a governmental entity for the costs.

Extra Credit

Your client's daughter was a high school student for part year (graduated high school) & started college in the fall. Would she be an eligible student if she paid the fall college expenses?

A. Yes

B. No

Extra Credit Answer

A. Yes

Why?

Because she paid the qualified expenses for the fall semester.

Extra Credit

What would you ask as a follow-up question to Scenario 4?

A. Did your client pay for the education expenses?

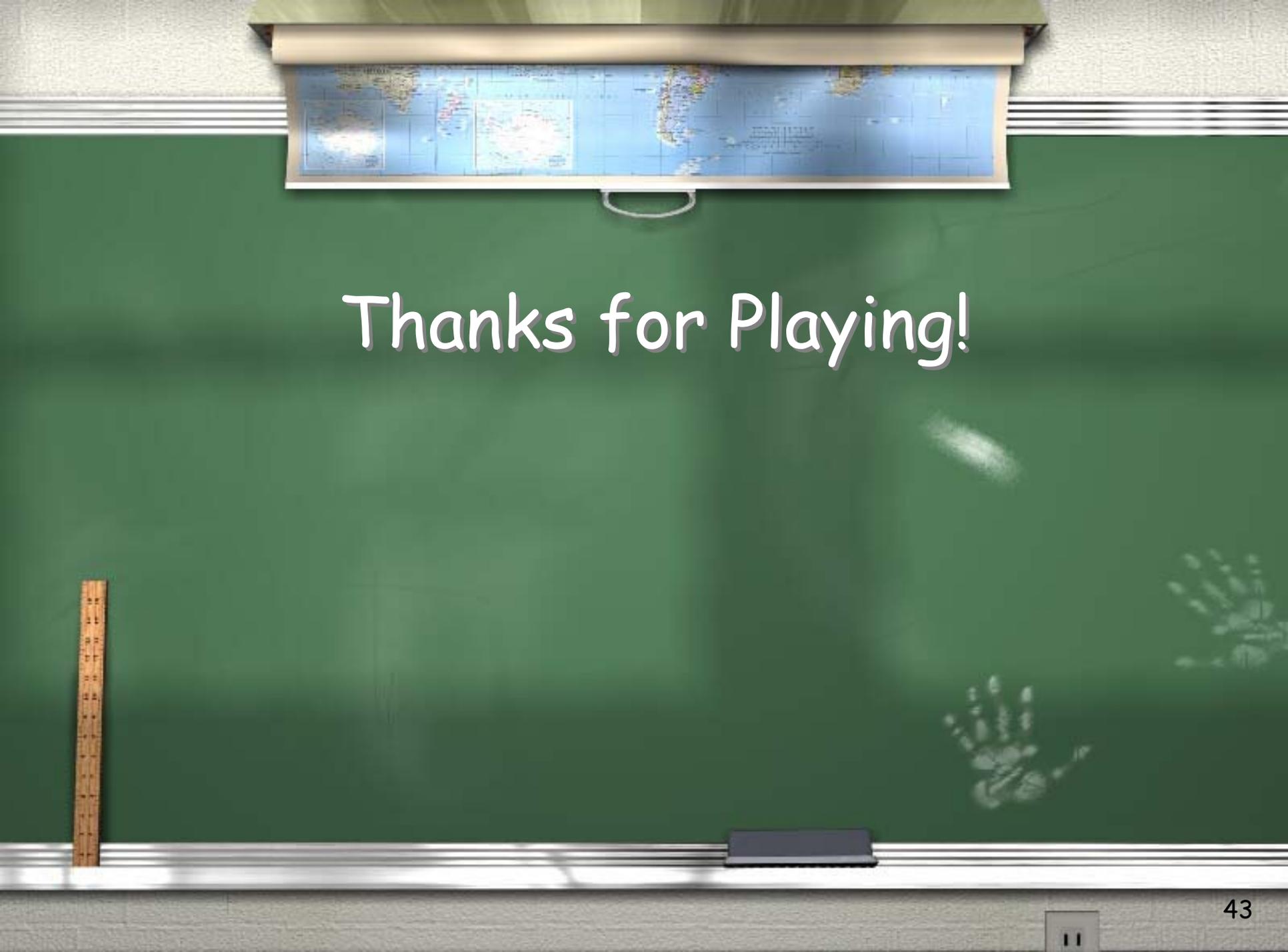
B. Is the eligible student enrolled at least half-time and working towards a degree?

C. Did the eligible student receive a Form 1098-T?

D. All of the above.

Extra, Extra, Extra, Credit

Jay is 20 years old and single. In January 2012, he began his freshman year of college. Jay enrolled full-time at Apple College and completed one semester. In September 2012, he transferred to Peach College as a full-time student. Each school issued him a Form 1098-T. Jay also worked and earned \$14,000. Although his parents still provide more than one-half of his support and could claim a dependency exemption for him, they chose not to. His parents paid all tuition and fees totaling over \$14,000.



Thanks for Playing!



New for 2012 – Part III of Form 8863

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- School name
- Physical address
- Age of Student
- Did the Student receive a 1098-T from the institution





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Interview Best Practices

- Avoid top errors
 - Verify student attended at least half-time for a full academic period
 - Verify Form 1098-T is complete and correct
 - Verify if anyone else can claim the student as a dependent
 - Verify age
 - Verify credit eligibility for graduate students
- Help your client when scams occur
- Documentation and record keeping



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Want More Resources?

Check-out:

- Publication 970, Tax Benefits for Education
- Publication 519, U.S Tax Guide for Aliens
- Form 8863, Education Credits
- www.irs.gov
- www.marketingexpress.irs.gov
- IRS education credits videos on YouTube
- Department of Education website – www.ed.gov





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Questions?

Email

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Thank you!