

American Opportunity Credit: Questions and Answers

Q1. Are there any changes to the tax credits for college expenses?

A. The American opportunity tax credit, which expanded and renamed the already-existing Hope credit, can be claimed for tuition and certain fees you pay for higher education in 2009 and 2010. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extend the AOTC for two additional years until Dec. 31, 2012.

Q2. The Hope credit originally applied only to the first two years of college. Has that changed?

A. Yes. The American opportunity tax credit can be claimed for expenses for the first four years of post-secondary education.

Q3. How does the AOTC differ from the Hope and lifetime learning credits?

A. AOTC includes expenses for course-related books, supplies and equipment which are not necessarily paid to the educational institution. AOTC also differs from the Hope Credit because it allows the credit to be claimed for four post-secondary education years instead of two.

Q4. How much is the American opportunity tax credit worth?

A. It is a tax credit of up to \$2,500 of the cost of qualified tuition and related expenses paid during the taxable year: under this provision 40% of the credit is refundable, which is up to \$1,000.00

Q5. What education expenses qualify for the American opportunity tax credit?

A. The term "qualified tuition and related expenses" has been expanded to include expenditures for "course materials." For this purpose, the term "course materials" means 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. The student should receive a Form 1098-T, Tuition Statement, from the institution attended.

Q6. Does an expenditure for a computer qualify for the American opportunity tax credit?

A. Whether an expenditure for a computer qualifies for the credit depends on the facts. An expenditure for a computer would qualify for the credit if the computer is needed as a condition of enrollment or attendance at the educational institution.

Q7. What are Qualified Expenses?

A. Qualified expenses for all credits include tuition and expenses related to enrolling and attending post-secondary education. The expenses must be paid during the year for the academic period beginning during the tax year or in the first three months of the following year.

The following expenses do not qualify:

- Room and board
- Transportation
- Insurance
- Medical expenses
- Student fees except if they are a condition of enrollment or attendance
- Expenses paid with non-taxable funds or tax-free educational assistance
- Same expenses used for any other tax deduction, credit or educational benefit.

Q8. How is the American opportunity tax credit calculated?

A. Taxpayers will receive a tax credit based on 100 percent of the first \$2,000 of tuition, fees and course materials paid during the taxable year, plus 25 percent of the next \$2,000 of tuition, fees and course materials paid during the taxable year.

Q9. How will the American opportunity tax credit affect my income tax return?

A. You will be able to reduce your tax liability one dollar for each dollar of credit for which you're eligible. If the amount of the American opportunity tax credit for which you're eligible is more than your tax liability, the amount of the credit that is more than your tax liability is refundable to you, up to a maximum refund of 40 percent of the amount of the credit for which you're eligible.

Q10. Who is eligible for the American opportunity tax credit?

A. A taxpayer who pays qualified tuition and related expenses and whose federal income tax return has a modified adjusted gross income of \$80,000 or less (\$160,000 or less for joint filers) is eligible for the credit. The credit is reduced ratably if a taxpayer's modified adjusted gross income exceeds those amounts. A taxpayer whose modified adjusted gross income is greater than \$90,000 (\$180,000 for joint filers) cannot benefit from this credit.

Q11. What is "modified adjusted gross income" for the purposes of the American opportunity tax credit?

A. It is the taxpayer's adjusted gross income increased by foreign income that was excluded, and by income excluded from sources in Puerto Rico or certain U.S. possessions.

Q12. Are there income limitations when claiming the credit?

A. The credit is available to individuals with a higher adjusted gross income. It starts to phase out at \$80,000 for individuals (or \$160,000 for married couples filing a joint return) and completely phases out at \$90,000 for individuals (or \$180,000 for married couples filing a joint return).

Q13. How is the credit claimed?

A. The credit is claimed using Form 8863, attached to Form 1040 or 1040A.

Q14. I'm just beginning college this year. Can I claim the American opportunity tax credit for all four years I pay tuition?

A. The American opportunity tax credit is for amounts paid in 2009 and 2010 only. You may be eligible for the lifetime learning credit for any tuition and fees required for enrollment you pay after 2010.

Q15. If the student was an undergraduate during the tax year and became a graduate student that same year, would he/she qualify for the credit?

A. If the student is within the first four years of post-secondary education, qualified expenses can be deducted.

Q16. Can I also claim the tuition and fees tax deduction in addition to claiming the American opportunity tax credit?

A. No. You cannot claim the tuition and fees tax deduction in the same year that you claim the American opportunity tax credit or the lifetime learning credit. You must choose among them. You also cannot claim the tuition and fees tax deduction if anyone else claims the American opportunity tax credit or the lifetime learning credit for you in the same year. A tax deduction of up to \$4,000 can be claimed for qualified tuition and fees paid. Though the credit will usually result in greater tax savings, taxpayers should calculate the effect of both on the tax return to see which is most beneficial — the tax credit or the deduction. Often tax software will automatically compare the two for you.

Q17. Is there a new benefit that applies to college savings plans (commonly known as 529 Plans)?

A. Yes. A qualified, nontaxable distribution from a Section 529 plan during 2009 or 2010 now includes the cost of the purchase of any computer technology or equipment or Internet access and related services, if such technology, equipment or services are to be used by the beneficiary of the plan and the beneficiary's family during any of the years the beneficiary is enrolled at an eligible educational institution.

Q18. What is Form 1098-T, Tuition Statement, and who provides it?

A. Educational institutions are required to file a Form 1098-T, Tuition Statement, for each enrolled student for whom a reportable transaction is made. A reportable transaction is payments they received or the amounts they billed for tuition and related expenses. For Form 1098-T to be accurately prepared, it must have box 8 or 9 checked.

There are some exceptions for not having to file the Form 1098-T or similar statement:

- **Courses for which no academic credit is offered, even if the student is otherwise enrolled in a degree program;**
- **Nonresident alien students, unless requested by the student;**
- **Students whose qualified tuition and related expenses are entirely waived or paid entirely with scholarships or grants; and**
- **When the student's tuition and related expenses are covered by a formal billing arrangement with the student's employer or a government agency such as the Department of Veterans Affairs or the Department of Defense.**