

Five Ways to Offset Education Costs

College can be very expensive. To help students and their parents, the IRS offers the following five ways to offset education costs.

1. **The American Opportunity Credit** This credit can help parents and students pay part of the cost of the first four years of college. The American Recovery and Reinvestment Act modifies the existing Hope Credit for tax years 2009 and 2010, making it available to a broader range of taxpayers. Eligible taxpayers may qualify for the maximum annual credit of \$2,500 per student. Generally, 40 percent of the credit is refundable, which means that you may be able to receive up to \$1,000, even if you owe no taxes.
2. **The Hope Credit** The credit can help students and parents pay part of the cost of the first two years of college. This credit generally applies to 2008 and earlier tax years. However, for tax year 2009 a special expanded Hope Credit of up to \$3,600 may be claimed for a student attending college in a Midwestern disaster area as long as you do not claim an American Opportunity Tax Credit for any other student in 2009.
3. **The Lifetime Learning Credit** This credit can help pay for undergraduate, graduate and professional degree courses – including courses to improve job skills – regardless of the number of years in the program. Eligible taxpayers may qualify for up to \$2,000 – \$4,000 if a student in a Midwestern disaster area – per tax return.
4. **Enhanced benefits for 529 college savings plans** Certain computer technology purchases are now added to the list of college expenses that can be paid for by a qualified tuition program, commonly referred to as a 529 plan. For 2009 and 2010, the law expands the definition of qualified higher education expenses to include expenses for computer technology and equipment or Internet access and related services.
5. **Tuition and fees deduction** Students and their parents may be able to deduct qualified college tuition and related expenses of up to \$4,000. This deduction is an adjustment to income, which means the deduction will reduce the amount of your income subject to tax. The Tuition and Fees Deduction may be beneficial to you if you do not qualify for the American opportunity, Hope, or lifetime learning credits.

You cannot claim the American Opportunity and the Hope and Lifetime Learning Credits for the same student in the same year. You also cannot claim any of the credits if you claim a tuition and fees deduction for the same student in the same year. To qualify for an education credit, you must pay post-secondary tuition and certain related expenses for yourself, your spouse or your dependent. The credit may be claimed by the parent or the student, but not by both. Students who are claimed as a dependent cannot claim the credit.

For more information, see Publication 970, Tax Benefits for Education, which can be obtained online at IRS.gov or by calling the IRS at 800-TAX-FORM (800-829-3676).