

# **Financial Friday with URL Radio & ND Jump\$tart**

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### **The New and Improved Tax Credit for Education for 2009 and 2010**

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September is that time of year when we see thousands of students heading back to college. As parents, “back to school” time reminds us of the harsh reality of paying for college. Many of us may be familiar with certain tax breaks that can help parents and students. You may have heard of the “Hope” credit or the “Lifetime Learning” credit. Now there’s a new credit that will help soften the blow of paying for college or other certificate programs.

#### **So what’s this new credit all about?**

The massive bill that was passed this last winter as part of what we know as the “Stimulus” package included changes to the Hope credit, which was usually the more generous of the two income tax credits allowed for higher education expenses. The old Hope credit has now been replaced by the new American Opportunity Tax Credit. The Lifetime Learning credit is also still available but will be used much less often.

#### **How does this new credit work?**

By way of background, a tax “credit” reduces the actual tax you pay, dollar for dollar. It is generally far better than a “deduction” which simply reduces the income upon which tax is computed.

The new credit is equal to 100% of the first \$2,000 of qualifying expenses and 25% of the next \$2,000. So, if your qualifying expenses are \$4,000 or greater, the credit will be \$2,500. That means \$2,500 would be subtracted from your actual tax bill. In effect, the government is reimbursing you for part of the cost of college or technical school. The maximum old Hope credit would have been \$1,800 so the new credit reimburses you for \$700 more than the old credit. Even better, the American Opportunity Tax Credit is now available for 4 years while the old Hope credit was only available for two years of a student’s expenses.

#### **What expenses qualify for this credit?**

The old Hope credit was pretty narrow. It was only allowed on expenses for tuition and academic fees. The new credit lets you include course materials, or books, when figuring the credit. It may also include a computer in certain circumstances.

#### **What happens if I don’t have at least \$2,500 in income tax to offset with the credit?**

Under the old rules, you would be out of luck. You wouldn’t benefit from the tax credit. In 2009 and 2010, 40% of the credit will be refundable meaning that if you will absolutely benefit from at least 40% of the credit. If you didn’t have any tax to offset, and your credit was \$2,500, you would get a refund from the IRS for 40% of the credit, or \$1,000.

#### **Are there limits on who gets the credit?**

Yes, like many tax rules, there are phase-outs that preclude higher income people from getting a particular benefit. In the case of this new credit, single people lose the credit entirely when their income exceeds \$90,000 and married couples lose the credit when their income exceeds \$180,000.