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**National Association of Student Financial Aid Administrators**

**Parent and Student Guide to  
Federal Tax Benefits for Tuition and Fees**

**Understanding the Hope Scholarship Tax Credit**

**What Is It?**

The Hope Scholarship is a tax credit, not a scholarship. Tax credits are subtracted from the tax your family owes, instead of subtracting them from taxable income like a tax deduction. Your family must file a federal tax return and owe taxes to get this tax credit. You can't get a refund for the Hope credit if your family doesn't pay taxes. If your family owes less in taxes than the maximum amount of the Hope tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes.

Your family may claim a tax credit up to \$1,500 for each eligible dependent for up to two tax years. In other words, your family may claim up to 100% of the first \$1,000 of eligible expenses and 50% of the next \$1,000 for a maximum credit of \$1,500.

The exact amount of the Hope credit depends on your family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. The total credit is also based on how many eligible dependents are in your family, rather than a maximum dollar amount for the family, like the Lifetime Learning tax credit.

**Who Qualifies?**

**The Taxpayer:** An eligible taxpayer must file a federal tax return and owe taxes to claim the Hope credit. In addition, the taxpayer must claim an eligible student as a dependent on the tax return, unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) You cannot claim a Hope credit if your Adjusted Gross Income (AGI) is \$51,000 or more for a single taxpayer, or \$102,000 or more for married taxpayers. The credit amount is gradually reduced for families with incomes between \$41,000 and \$51,000 if single, or \$82,000 and \$102,000 if married. After the 2001 tax year, the income limits will be adjusted for inflation. See the 2002 IRS Form 8863 for the revised AGI limits.

**The Student:** The tax law says an eligible student must be enrolled at least half-time in an eligible program leading to a degree or certificate at an eligible school during the calendar year AND must not have completed the first two years of undergraduate study. The college you attend can help you figure out whether you meet this requirement. You may claim the credit yourself if you are not claimed as a dependent by another taxpayer.

(Once again, this means that the eligible student may also be the eligible taxpayer.) Also, you may not have been convicted of a federal or state felony drug offense before the end of the tax year in which you are enrolled.

### **How Do You Get It?**

To apply for the credit, the taxpayer must report the amount of tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. The law says that schools must send this information in the form of a statement to each taxpayer and to the IRS. For the 2002 tax year, this statement will include: (1) the name, address, and taxpayer ID number of the school; (2) the name, address, and taxpayer ID of the student for whom tuition was paid; (3) whether the student was enrolled at least half-time; and (4) whether the student was enrolled only in a graduate-level program. *[Note: your school will mail this to you by January 31, 2004, for the 2003 tax year].* This statement from the school will also include the phone number of a person you can call at the school if you have questions. You will use this information and your own records about tuition and fee amounts you paid to fill out the IRS Form 8863 to claim the tax credit. You may wish to talk to a tax advisor for help in calculating the amount of your credit.

### **When Is It Available?**

You may claim the Hope credit for qualified expenses paid in tax years beginning January 1, 1998, and after, for education furnished in academic periods beginning on or after this date.

Taxpayers may pay educational expenses in a tax year for an academic period that begins following the tax year (e.g., paying in December 2000 for an academic period beginning in the first three months of 2001). Because the law did not take effect until January 1, 1998, you were not allowed to prepay for the first year of the credit.

### **Can A Family Claim Multiple Benefits?**

Your family may claim a Hope credit, a Lifetime Learning credit, and an exclusion from gross income for certain distributions from qualified State tuition programs or education IRAs as long as the same student is not used as the basis for each credit or exclusion AND the family does not exceed the Lifetime Learning maximum per family.

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## **Understanding the Lifetime Learning Tax Credit**

### **What Is It?**

The Lifetime Learning credit is a tax credit available to individuals who file a tax return and owe taxes. This means the amount of the credit is subtracted from the taxes your family owes, rather reducing taxable income like a tax deduction does. You can't get a refund for the Lifetime Learning credit if your family doesn't pay taxes. If your family owes less in taxes than the maximum amount of the Lifetime Learning tax credit for which your family is eligible, you can only take the credit for the amount you owe in taxes.

Your family may claim a tax credit up to \$1,000 per tax year (until January 1, 2003) and up to \$2,000 (after that date) for the taxpayer, taxpayer's spouse, or any eligible dependents for an unlimited number of tax years. You may claim up to 20% of \$5,000 of eligible expenses for expenses paid after June 30, 1998, and prior to January 1, 2003, and up to 20% of \$10,000 of eligible expenses (for expenses paid after January 1, 2003).

The actual amount of the credit depends on your family's income, the amount of qualified tuition and fees paid, and the amount of certain scholarships and allowances subtracted from tuition. This credit is family-based (e.g., \$1,000 per family) rather than based on the number of dependents in your family like the Hope credit.

### **Who Qualifies?**

**The Taxpayer:** An eligible taxpayer must file a tax return and owe taxes to claim the credit. The taxpayer must also claim the eligible student as a dependent unless the credit is for the taxpayer or the taxpayer's spouse. (This means the eligible taxpayer may also be the eligible student.) You cannot claim a Lifetime Learning credit if your AGI is \$51,000 or more (if single), or \$102,000 or more (if married). The credit amount is gradually reduced for families with incomes between \$41,000 and \$51,000 if single or between \$82,000 and \$102,000 if married. After the 2001 tax year, the income limits will be adjusted for inflation. See the 2002 IRS Form 8863 for the revised AGI limits.

**The Student:** An eligible student may be enrolled in an eligible program leading to an undergraduate or graduate degree at an eligible school during the calendar year OR may be enrolled level in any course of instruction at an eligible school to acquire/improve the student's job skills during the calendar year. You may claim the credit yourself if you are

not claimed as a dependent by another taxpayer. (Once again, this means that the eligible student may also be the eligible taxpayer.)

### **How Do You Get It?**

To apply for the credit, the taxpayer must report the amount of tuition and fees paid as well as the amount of certain scholarships, grants, and untaxed income used to pay the tuition and fees. The law specifies that schools will send you this information in the form of a statement to individual taxpayers and to the IRS. For the 2002 tax year, this statement will include: 1) the name, address, and taxpayer ID number of the school; 2) the name, address, and taxpayer ID of the student for whom tuition was paid; 3) whether the student was enrolled at least half-time; and 4) whether the student was enrolled only in a graduate-level program. *[Note: your school will mail this to you by January 31, 2004 for the 2003 tax year].* This statement from the school will also include the phone number of a person you can call at the school if you have questions. You will use this information and your own records about tuition and fee amounts you paid to fill out the IRS Form 8863 to claim the tax credit. You may wish to talk to a tax advisor for help in calculating the amount of your credit.

### **When Is It Available?**

You may claim the Lifetime Learning credit for qualified expenses paid in tax years beginning July 1, 1998, and after.

### **Can A Family Claim Multiple Benefits?**

Your family may claim a Lifetime Learning credit, a Hope credit, and an exclusion from gross income for certain distributions from qualified state tuition programs or education IRAs as long as the same student isn't used as the basis for each credit or exclusion AND the family doesn't exceed the Lifetime Learning maximum per family.

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**Understanding the Tuition and Fees Tax Deduction**

**What Is It?**

The Tuition and Fees Tax Deduction can reduce the amount of your taxable income by as much as \$3,000 per year. This deduction is subtracted from your income, which means you can claim this deduction even if you do not itemize your deductions on Schedule A of Form 1040. This deduction may benefit you if you do not qualify for either the Hope or Lifetime Learning Education Tax Credits because your income is too high.

You may deduct up to \$3,000 in tuition and fees required for enrollment or attendance at an eligible postsecondary institution. You may not deduct expenses for personal, living, or family expenses, including room and board, insurance, medical expenses, or transportation.

The exact amount of the Tuition and Fees Tax Deduction depends on the qualified tuition and related expenses that you pay for yourself, your spouse, or a dependent for whom you are entitled to claim an exemption on your tax return.

**Who Qualifies?**

**The Taxpayer:** An eligible taxpayer must file a federal tax return to claim the Tuition and Fees Tax Deduction. In addition, the taxpayer must claim an eligible student (one who is enrolled in one or more courses at an eligible educational institution) as a dependent on the tax return, unless the deduction is for the taxpayer or the taxpayer's spouse. For tax year 2002, you cannot claim a Tuition and Fees Tax Deduction if your Adjusted Gross Income (AGI) is more than \$65,000 for a single taxpayer, or more than \$130,000 for married taxpayers.

**The Student:** An eligible student must be enrolled in one or more courses at an eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the Department of Education. According to the IRS, "it includes virtually all accredited, public, nonprofit, and proprietary postsecondary institutions." The college you attend can help you figure out whether they meet this requirement. You may claim the deduction yourself if you are not claimed as a dependent by another taxpayer.

## **How Do You Get It?**

To receive the deduction, the taxpayer must enter the qualified tuition and fee amount on Form 1040, line 26, or Form 1040A, line 19. An eligible institution that received payment for tuition and fees in the 2002 tax year generally must have issued IRS Form 1098-T (the *Tuition Payments Statement*) to each student by January 31, 2003. The information on that form will help you determine whether you can claim a deduction for 2002.

## **When Is It Available?**

You may claim the Tuition and Fees Tax Deduction for qualified educational expenses paid beginning in tax year 2002. The deduction will be available for four years, 2002 through 2005.

Generally, the deduction is allowed for qualified tuition and expenses paid in 2002 in connection with enrollment at an institution of higher education during 2002 or for an academic period beginning in 2002 or in the first three months of 2003. For instance, if you paid \$1,500 in December 2002 for qualified tuition for the spring 2003 semester (beginning in January 2003), you may be able to use that \$1,500 in figuring your 2002 deduction.

## **Can A Family Claim Multiple Benefits?**

Your family may claim this deduction along with a Hope credit, a Lifetime Learning credit, and an exclusion from gross income for certain distributions from qualified State tuition programs or education IRAs, as long as the same student is not used as the basis for each deduction, credit, or exclusion AND the family does not exceed the Lifetime Learning maximum per family.

You cannot take the Tuition and Fees Tax Deduction if you deduct tuition and fees expenses under any other provision of the law, for example, as a business expense.

You also may NOT claim the deduction if the tuition and fees were paid with a tax-free scholarship, grant, or other educational assistance. "Grants" may include Pell Grants. "Other assistance" may include employer-provided educational assistance, and other non-taxable benefits received to pay for educational expenses.

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**Related IRS Publications**

- **Publication 970 (PDF), Tax Benefits for Higher Education**  
<http://www.irs.gov/pub/irs-pdf/p970.pdf>
- **Form 8863 and Instructions (PDF), Education Credits (Hope and Lifetime Learning Credits)**  
<http://www.irs.gov/pub/irs-pdf/f8863.pdf>
- **Tax Topic 605, Education Credits**  
<http://www.irs.gov/taxtopics/page/0,,id%3D16258,00.html>
- **Frequently Asked Tax Questions And Answers, Education Tax Credits**  
<http://www.irs.gov/faqs/page/0,,id%3D15835,00.html>

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The **National Association of Student Financial Aid Administrators** (NASFAA) created this general guide to federal education-related tax benefits for students and their families. We hope you have found useful the basic information about the Hope Scholarship tax credit, the Lifetime Learning tax credit, and the Tuition and Fees Tax Deduction. More detailed information is available from the IRS (including the links noted above) or from financial advisors.

For additional information on the financial aid process, please visit our Web site for students and parents at <http://www.nasfaa.org/ParentsStudents.asp>.

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