



The elements of success

The Tax Advantages of Funding Higher Education

Looking to take some of the sting out of the cost of higher education? Review the following information to ensure you are taking full advantage of all the education tax benefits available to you.



The Student Loan Interest Deduction

Tax deductions are intended to reduce the amount of tax owed to the government by decreasing the amount of your taxable income. If you, your spouse or a dependent is enrolled at least part time in college, you should consider the student loan interest deduction.

Unlike most other loans, there is a special deduction allowed for interest paid on a student loan. If your modified adjusted gross income (MAGI) is less than \$65,000 (or \$130,000 if married filing jointly), you can reduce your taxable income by up to \$2,500, depending on the amount of interest you paid on the loans throughout the year. Single tax-payers with income between \$65,000 and \$80,000 and those who are married filing jointly with income between \$130,000 and \$160,000 are subject to a reduced deduction, which phases out as your income rises. Single filers with income above \$80,000 and those married filing jointly with income above \$160,000 are not eligible for this deduction.

The student loan interest deduction can be applied to any official student loan, not just federally backed loans. In fact, interest paid on credit cards used exclusively for qualifying education expenses is also eligible for this deduction. However, you cannot take the student loan interest deduction on money loaned to you from a family member.

Educational Tax Credits

Tax credits also reduce the amount of income tax you owe, but instead of reducing your taxable income, you can subtract the credit directly from your tax bill. Educational credits available to you include the Lifetime Learning Credit and the American Opportunity credit. The Lifetime Learning Credit allows you to claim up to 20 percent of the first \$10,000 of qualified expenses, up to \$2,000 per tax year. The American Opportunity Credit allows you to claim 100 percent of the first \$2,000 of qualified expenses and 25 percent of the next \$2,000 of qualified expenses, so students must pay at least \$4,000 in expenses to claim the

maximum credit of \$2,500 per eligible student. You may not claim both credits for the same student in the same year. If you, your spouse or any dependents that you claim on your tax return is or was a student, it is likely you are eligible for either credit if none of the following apply:

If you filed tax returns without taking advantage of education credits or deductions, you have up to three years after the due date of your original return to file an amended return and claim a refund.

- You or anyone else claims a different education credit or the tuition and fees deduction for the same student in the same year
- Your filing status is married filing separately
- Someone else claims you on his or her tax return
- You were a non-resident alien for part of the year and did not elect to be treated as a resident alien for tax purposes

Credit Check: American Opportunity Credit vs. Lifetime Learning Credit

Though the Lifetime Learning Credit and American Opportunity Credit are similar in terms of qualifications, there are some important distinctions between them.

	American Opportunity Credit	Lifetime Learning Credit
Maximum Credit	Up to \$2,500 per eligible student	Up to \$2,000 per tax return
Limit on MAGI	\$90,000 if single, head of household or qualifying widow(er) <i>(Phaseout range begins at \$80,000)</i> \$180,000 if married filing jointly <i>(Phaseout range begins at \$160,000)</i>	\$65,000 if single, head of household or qualifying widow(er) <i>(Phase out range begins at \$55,000)</i> \$130,000 if married filing jointly <i>(Phase out range begins at \$110,000)</i>
Refundable or non-refundable	40% of credit may be refundable	Credit limited to amount of tax you must pay on your taxable income
Number of years of post-secondary education	Available ONLY for the first four years of post-secondary education	Available for all years of post-secondary education and for courses to acquire or improve job skills
Number of tax years credit available	Four tax years per eligible student	Unlimited
Type of degree required	Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Number of courses	Student must be enrolled at least part time for at least one academic period beginning during the tax year	Available for one or more courses
Felony drug conviction	No felony drug convictions on records	Felony drug convictions permitted
Qualified expenses	Tuition and required enrollment fees. Course-related books, supplies and equipment do not need to be purchased from the institution in order to qualify.	Tuition and required enrollment fees, including amounts required to be paid to the institution for course-related books, supplies and equipment.

(All deductions, credits and MAGI limit values listed are for the 2015 tax year)



hooker & holcombe

65 LaSalle Road
West Hartford, CT 06107
860.521.8400

Learn more at:

hhconsultants.com

About Us

- Leading regional firm specializing in:
 - Actuarial and Pension Consulting
 - Retirement Benefits Administration
 - Institutional Investment Advisory
 - Individual Wealth Management
- Helping public & private sector clients since 1956
- Experienced, dedicated professionals
- Pension Outsourcing – your resource solution
- PensionEdge® Plus – internet based technology for sponsors and participants

Investment advice is offered through Hooker & Holcombe Investment Advisors, Inc., an SEC Registered Investment Adviser. This article was written by Advicent Solutions, an entity unrelated to Hooker & Holcombe Investment Advisors, Inc. The information contained in this article is not intended to be tax, investment, or legal advice, and it may not be relied on for the purpose of avoiding any tax penalties. Hooker & Holcombe Investment Advisors, Inc. does not provide tax or legal advice. You are encouraged to consult with your tax advisor or attorney regarding specific tax issues. © 2015 Advicent Solutions. All rights reserved.