TAX BENEFITS FOR STUDENTS

The Taxpayer Relief Act of 2012 extends two tax credits for education expenses – the American Opportunity Credit (which replaces the former Hope Scholarship Credit) and the Lifetime Learning Credit – thru December 2017. It has yet to be decided if taxpayers will be eligible to claim a tuition and fees tax deduction (up to $4,000) for tax year 2015. Tax credits reduce a taxpayer’s tax dollar for dollar as opposed to tax deductions, which only reduce a taxpayer’s taxable income. As such, tax credits are more favorable than tax deductions. Merely being an undergraduate student does not qualify an individual for the tax credits or deduction. The taxpayer must spend equal or in excess of the amount of the deduction or credit to claim it on his or her return.

American Opportunity Credit

Previously, the Hope Scholarship Credit applied to students in his or her first two years of post-secondary education. However, under the American Opportunity Tax Credit, students are eligible for the credit for four years of post-secondary education. Taxpayers claiming the American Opportunity Credit may not apply for the Lifetime Learning Credit or the tuition and fees deduction. Of the maximum $2,500 credit taxpayers may apply for on his or her tax return, 40% is considered refundable, which means if the taxpayer has no tax liability, he or she may still claim up to $1,000 of the credit. In addition, the credit is subject to income limitations. Depending on an individual’s income and filing status, among other factors, the credit may be phased out partially or completely. For more information, visit http://www.irs.gov/Individuals/AOTC.

Lifetime Learning Credit

The Lifetime Learning Credit can be claimed for individuals in post-secondary education for any number of years. The credit is maxed out at $2,000 per return, not per student. Similarly to the American Opportunity Tax Credit, the Lifetime Learning Credit can be phased out depending on filing status and income levels. Taxpayers cannot claim the credit if he or she has been convicted of a felony or if his or her filing status is married filing separately. Furthermore, the Lifetime Learning credit is nonrefundable – meaning if a taxpayer has 0- tax liability, he or she will not receive any benefit of the credit. More information on qualified expenditures and other general information on the credit can be found at http://www.irs.gov/publications/p970/ch03.html.

Tuition and Fees Deduction

A decision from Congress on whether to extend the tuition and fees deduction for 2015 has yet to be decided. The tuition and fees deduction could be taken for qualified expenses spent on higher education for the applicable tax year. The deduction was capped at $4,000 and subject to income
limitation and filing status of the taxpayer. Like the Lifetime Learning Credit, the tuition and fees deduction could be claimed for any number of years. A taxpayer cannot claim the deduction if he or she is also claiming one of the two credits mentioned above for the same individual. More information relating to the tuition and fees deduction can be found at http://www.irs.gov/publications/p970/ch06.html.

State 529 Savings Plan

The South Carolina 529 College Savings Plan allows account holders to save money in an account that will grow tax-free so long as the proceeds are used for qualified higher education expenses (definition here - http://www.futurescholar.com/About/FAQ#qualified). While no federal tax deduction or credit exists for amounts put into these accounts, South Carolina does allow taxpayers to deduct contributions on his/her state tax return. The contribution amount is limited to $370,000 per beneficiary, and each beneficiary can have multiple accounts, but the sum cannot exceed $370,000. Other advantages of opening a 529 plan include no age or income limits for participants and full control over account and investments. For more information, visit http://www.futurescholar.com/.

Related Links

Tax Benefits for Students
http://www.irs.gov/uac/Tax-Benefits-for-Education:-Information-Center

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Medical University of South Carolina
Tax Compliance Office
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