

#### 1. Hope Credit

You may be able to claim a portion of qualified tuition and education expenses for each student, provided:

- ✓ the student is enrolled at least halftime in a degree, certificate or credential program at an eligible school;
- ✓ the student is in the first or second year of postsecondary education; and
- ✓ the student does not have a felony drug conviction on their record.

# 2. Lifetime Learning Credit

You may be able to claim a portion of annual qualified education expenses:

- ✓ the student may be attending less than half-time;
- ✓ the student does not need to be pursuing a degree or certification program; and
- ✓ you may claim the credit for an unlimited number of years for the same student.

#### **3. Student Loan Interest Deduction**

You may be able to deduct some of the interest you paid on student loan(s). You don't need to itemize your deductions to claim this deduction. The following loans may be eligible for the deduction:

- ✓ Federal Stafford Loans
- ✓ Federal PLUS Loans (Parent)
- ✓ Federal Consolidation Loans
- ✓ Federal Perkins Loans
- ✓ Alternative Education Loans (issued by government, banks, private lenders or schools specifically for education expenses.)

## 4. Work-Related Education Expenses

You may be able to deduct qualified education expenses if:

- ✓ the education is required by law to maintain your present job or salary; or
- ✓ the education maintains or improves skills needed in your present work.

# **5. Coverdell Education Savings Account**

You may contribute to a Coverdell Education Savings Account to finance qualified education expenses for a beneficiary.

# **6. Education Savings Bond Program**

Earnings from certain U.S. savings bonds are tax-free if used to pay qualified education expenses.

- ✓ Series EE issued after 1989 or Series I bonds qualify.
- ✓ The bond owner must be at least 24 before the bond issue date (printed on the front of the bond.)

# **7. Education Savings (529) Programs**

You may either prepay tuition or finance qualified education expenses for a beneficiary. Programs currently exist in all 50 states.

# 8. Employer-provided Education Assistance

You may not have to pay taxes on amounts your employer pays towards your education.

#### **9. Education Scholarships**

Education scholarships and fellowships are tax free if:

- ✓ the student is a degree candidate; and
- ✓ the funds are used only for tuition and course-related expenses.

### **10. Traditional or Roth IRA**

Early withdrawals (prior to age 59 1/2)

used to pay qualified education expenses may be exempt from the 10% early withdrawal tax.

Unlike other programs, you may use this tax benefit if you paid qualified education expenses for yourself, your spouse, your children or grandchildren.





#### **SOME LIMITATIONS**

- ▲ In most cases, you may use any of the tax benefit programs for yourself, your spouse, or any student that you claim as a dependent and include as an exemption on your tax return.
- ▲ You cannot claim any tax benefit for yourself if you are considered a dependent on someone else's tax return.
- ▲ If married, you must file jointly to claim either tax credit.
- A You may not claim the Hope Credit and the Lifetime Learning Credit for the same student in the same year, although you may claim both credits on the same tax return as long as each credit is for a different student.
- ▲ The Hope credit may be claimed *for each student*, but the Lifetime Learning Credit is limited to once *per tax return*.
- ▲ Expenses paid for through tax-free funds do not qualify for tax benefits.
- ▲ Generally, you cannot claim more than one of the benefits for the same qualifying expense.
- ▲ Your income must be within certain adjusted gross income limits to be eligible for each program. The actual tax benefit will be prorated based on a taxpayer's AGI.
- ▲ Always check with the IRS or a qualified tax advisor if you have any questions.











# **TEN WAYS TO SAVE MONEY**

The U.S. congress has authorized several programs to help qualified taxpayers saving for or paying higher education expenses for themselves or a family member.

#### **Tax Credits**

A tax credit is subtracted directly from the federal income tax that you owe. The savings are dollar-for-dollar, and therefore result in the largest benefit to you.

#### **Tax Deduction**

A tax deduction is subtracted from your income *before* you calculate your tax. Often, your benefit is a *percentage* of the actual amount you paid.

# **Tax-Free Income**

In some cases, earnings on education savings programs may be considered nontaxable.

#### **Tax Exemptions**

Withdrawals from some retirement plans may be exempt from the 10% early withdrawal tax if used for education expenses.

When developing your education financing strategies, remember: you should always verify eligibility



with the IRS or your tax advisor.

ACPE provides general information
based on the tax laws in effect in 2003.

The information in this brochure
should not be considered individual
tax advice.

For more information, refer to IRS publication 970, **Tax Benefits for Higher Education** available on-line at *www.irs.gov/pub/irs-pdf/p970.pdf*Or visit the U.S. Department of Education's tax information Web site at *www.ed.gov/offices/OSFAP/Students/taxcuts/* 



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**EDUCATION TAX BENEFITS** 

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Important Note: ACPE produces this brochure for informational purposes only. Please check with your tax advisor or the IRS for program eligibility information.