Congress introduced the Hope Credit and the Lifetime Learning Credit in 1998 to help taxpayers offset the cost of higher education. The credits are available for qualifying education expenses beyond high school for taxpayers, their spouses, and their dependents. The 2009 Recovery Act modified the Hope Credit and renamed it the American Opportunity Tax Credit (AOTC). The PATH Act of 2015 made the AOTC permanent.

The American Opportunity Tax Credit

The credit is 100% of the first $2,000 and 25% of the next $2,000 of qualifying expenses, with a maximum credit of $2,500 per eligible student (subject to income limitations, discussed later.) The credit is available to students who:

- Have not completed the first four years of education beyond high school as of the start of the tax year.
- Have enrolled in a degree or certification program at least half-time.
- Have not been convicted of a federal or state felony for possession or distribution of a controlled substance.

The AOTC is allowed against alternative minimum tax (AMT). Individuals owing no taxes can potentially receive 40% of the credit as a refund.

Income limits for the American Opportunity Tax Credit

A single taxpayer's AOTC will be reduced if modified adjusted gross income (MAGI) is between $80,000 and $90,000 ($160,000 and $180,000 for married couples filing joint returns). These amounts are not adjusted for inflation. This credit is not available for taxpayers with income above the MAGI levels.

The Lifetime Learning Credit

The credit is 20% of the first $10,000 of qualifying expenses for all eligible students in the family, with a maximum credit of $2,000 per family (subject to income limitations, discussed later). The credit is allowed for:

- One or more postsecondary courses taken by the student during the year, including graduate courses.
- Courses taken to improve or acquire job skills.

The Lifetime Learning Credit is allowed against AMT. Also, it is a nonrefundable credit, meaning that individuals who do not owe tax do not benefit.

Income limits for the Lifetime Learning Credit

For 2016, the credit is reduced for single taxpayers with MAGI between $55,000 and $65,000 ($111,000 to $131,000 for married filing jointly). The Lifetime Learning Credit in 2017 is reduced for single taxpayers with MAGI between $56,000 and $66,000 ($112,000 to $132,000 for married filing jointly).

Qualifying Expenses

Certain education expenses paid for you, your spouse and any dependent claimed on your tax return for the year may qualify. Qualifying expenses for both credits include:

- Amounts spent for qualified tuition and related expenses required for enrollment or attendance at an eligible educational institution.
- Fees for course-related books, supplies, equipment and student activity fees, but only if they are paid to the institution as a condition of enrollment or attendance.

For the AOTC, qualifying expenses also include course materials, which are defined as books, supplies and equipment needed for a course of study, regardless of whether the materials are purchased from the educational institution as a condition of enrollment or attendance.

Qualifying expenses do not include insurance, medical expenses, room and board, transportation or other personal living expenses (even if students are required to reside on campus).

Eligible educational institutions

Any accredited college, university, vocational school or other accredited postsecondary educational institution deemed eligible to participate in a student aid program administered by the Department of Education qualifies as an eligible educational institution. This includes most (but not all) accredited, public, nonprofit and privately owned institutions. An institution will be able to tell you if it qualifies.

Duplicate benefits not allowed

- You cannot claim an education credit if you claimed a tuition and fees deduction in the same year for the same student.
- You cannot claim a business expense deduction for the same amount.
- You must reduce the amount of qualified expenses that were paid with certain tax-free funds (e.g., scholarships, grants, employer or VA assistance benefits).
- Qualified expenses must be reduced by the amounts used to exclude the interest income on savings bonds.
- For the same student, you can claim both an education credit and an income exclusion for distributions from an education savings account (ESA) or from a qualified tuition program (QTP). However, when determining the excludable amount for ESA and QTP distributions, qualified education expenses are first reduced by those taken into account in claiming an education credit.

Deduction for student loan interest is allowed with these credits

- In general, taxpayers are allowed to deduct up to $2,500 in student loan interest they paid during the year.
- A taxpayer cannot claim the deduction in any tax year in which his or her filing status is married filing separately.
- For 2016, the deduction is subject to modified adjusted gross income phaseouts for taxpayers with MAGI between $65,000 and $80,000 ($130,000 and $160,000 for married filing jointly).
- For 2017, the deduction is subject to modified adjusted gross income phaseouts for taxpayers with MAGI between $65,000 and $80,000 ($135,000 and $160,000 for married filing jointly).

Choosing the right credit

Most people will use the American Opportunity Tax Credit if they are eligible and the Lifetime Learning Credit if not. If you have qualifying expenses for more than one student in a year, you can choose the credit on a per-student basis.

Who can claim the credit?

In any given year, only one person can claim an education credit for an individual student's expenses. If a student is not a dependent, the student claims his or her own education credit. If a student is a dependent, the person entitled to the dependency exemption is eligible for the education credit based on the expenses of the dependent student. However, the student may claim the education credit for his or her qualified tuition and related expenses if the person eligible to claim the student, such as a parent, forgoes the dependency exemption. In this situation, no one claims the dependency exemption, which will allow the student to claim his or her own education credit if it's more beneficial to do so.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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Education Credits