

## How To Reduce Your Income Taxes With Two New Educational Credits

Thanks to the Taxpayer Relief Act of 1997, two tax credits are now available to help offset the cost of higher education. These are the HOPE scholarship credit and the lifetime learning credit.

### What Is a Tax Credit?

Tax credits are quite valuable and worthwhile because they directly lower the amount of income tax you must pay. Specifically, your income taxes are reduced by one dollar for each dollar of credit to which you are entitled. As discussed below, the HOPE scholarship credit and the lifetime learning credit may reduce your income taxes by giving you tax credits based on the amount of educational tuition you pay.

### What is the HOPE Scholarship Credit?

The HOPE scholarship credit, which went into effect on January 1, 1998, provides up to a \$1,500 tax credit per student for post-secondary education tuition if your income is below a certain level. The amount of the credit is phased out or eliminated if you are a so-called "upper-income" taxpayer. If you are single, the phase out is between \$40,000 and \$50,000 of your adjusted gross income. If you are married and file jointly, the phase out is between \$80,000 and \$100,000 of your adjusted gross income. In other words, the HOPE credit will not be available to you if you are single and your adjusted gross income exceeds \$50,000 or if you are married filing jointly and your adjusted gross income exceeds \$100,000.

Like almost everything else involving the Internal Revenue Code, the HOPE credit seemingly requires an advanced degree simply to understand it. The credit is available only to "eligible students" for "qualified tuition" at "eligible educational institutions."

An *eligible student* is someone who is enrolled in a program leading to a degree, certificate, or similar credential and who is carrying at least one-half of the normal full-time course load for the student's field of study.

*Qualified tuition* consists of the fees required for enrollment and does not include the myriad other expenses students incur, such as books, meals, lodging, student activity fees, athletic fees, lab fees, etc. Also, the amount of qualified tuition that you may use to claim the credit is reduced by the following items: certain employer-paid educational expenses, most scholarships and fellowships, tuition that you are able to deduct as a

business expense, and the amount of interest on educational U.S. savings bonds that you may exclude from income.

*A qualified educational institution* is an accredited, post-secondary educational institution that awards credit toward an associate's degree, a bachelor's degree, or a similar credential.

The HOPE credit is only available to offset tuition that you pay for your own education or for the education of your spouse or dependents. Although the full amount of credit is available for each eligible student in your family, the credit is only allowed for the first two years of enrollment. For example, if you are the parent of twins, you may receive a credit of up to \$3,000 (up to \$1,500 per twin), but only during the first two years of each twin's education.

Congress is evidently concerned about drug use by students. No HOPE credit is allowed for any year in which the student is convicted of a federal or state felony for unlawful possession or distribution of a controlled substance.

#### What is the Lifetime Learning Credit?

The lifetime learning credit (LLC) is effective starting July 1, 1998. Although the LLC contains the same definitions as the HOPE credit and has the same phase out based on your adjusted gross income, the LLC differs from the HOPE credit in several respects.

The LLC allows you a credit for 20 percent of qualified tuition, up to \$5,000 per year (\$10,000 per year starting in 2003). Unlike the HOPE credit, which is allowed on a per-student basis, the LLC is allowed on a per-taxpayer basis, regardless of the number of students for whom you are paying tuition. For example, if you are the parent of our previously mentioned twins, you could receive a credit of up to \$5,000 whether one or both twins attended college.

The LLC is available for an unlimited number of years and there is no minimum course load requirement. For example, the tuition you pay to attend a noncredit professional seminar offered by an eligible educational institution may qualify for the LLC.

#### Electing the HOPE Credit or the LLC

As you might expect, you cannot claim the HOPE credit and the LLC for the same student during the same year. Rather, each year you must elect one

or the other. However, you can elect the HOPE credit for one student and the LLC for another.

### Conclusion

If you, your spouse, or your dependents have delayed attending school or seminars due to the expense, the HOPE credit or the LLC may enable you or them to do. Considering the benefits of higher education, these credits may be just what the professor ordered.