2017 Tax Year – Federal Tax Benefits for Higher Education

NASFAA provides this information to students and parents solely for informational purposes and it is not intended to be tax or legal advice. For more information, see IRS Publication 970 or consult a qualified tax advisor.

The federal government provides a number of tax incentives that can help lower the cost of higher education. These incentives include:

- Tax credits directly reduce the amount of tax you pay.
- Tax deductions reduce the amount of your income that is taxed.

You may qualify for more than one of these incentives, but there are some restrictions. It's a good idea to calculate your taxes multiple ways to find the maximum benefits available to you. For more information, on any of these benefits, refer to IRS Publication 970 or consult a qualified tax advisor.

The 1098-T Statement

You may receive information about your educational expenses in a 1098-T statement from the institution of higher education you attended. Students should, in most cases, receive Form 1098-T from their eligible educational institution by January 31, 2018. (You might receive this by mail or electronically. Be sure to save this information, or give it to the person who claims you on their tax return if you don't claim yourself.)

For tax year 2017, a taxpayer does not have to have a 1098-T form to claim the American Opportunity Credit or the lifetime learning credit. If the student did not receive a Form 1098-T, the taxpayer may still apply for these educational benefits.

Some schools report only tuition and fees on this form. If your 1098-T doesn't include amounts you paid for course-related books, supplies, and equipment, and these expenses are covered by the tax benefit you are taking, you can use your records to calculate the amounts paid for these items and report this amount on your tax return.

For more information, refer to IRS Publication 970.

The American Opportunity Tax Credit

The credit offsets what you pay for the first four years of higher education by reducing the amount of income tax you pay. In addition, the credit is partially refundable so you may be able to get a payment from the IRS even if you don't owe any income tax!

This credit provides up to $2,500 per student and up to 40 percent of the credit may be refundable.

Eligibility Requirements

Your modified adjusted gross income (MAGI) is the total of your household's adjusted gross income plus any tax-exempt interest income you may have (these are the amounts on lines 37 and 8b of IRS form 1040). The credit is available to a taxpayer whose MAGI is $80,000 or less ($160,000 or less for joint filers) for the qualified expenses of an eligible student. The credit is reduced if a taxpayer's modified adjusted gross income exceeds those amounts. A taxpayer whose modified adjusted gross income is greater than $90,000 ($180,000 for joint filers) cannot claim the credit.

You can use this credit to offset what you paid for tuition, fees, course-related books, supplies, and equipment for higher education (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2017 for yourself, your spouse, or someone you claim as a dependent on your tax return.

The student must have been enrolled at least half-time for at least one academic period that began during 2017 (or the first 3 months of 2018 if the qualified expenses were paid in 2017) in an eligible program leading to a degree, certificate, or other recognized credential at an eligible school – those that are eligible to participate in the federal student aid programs (virtually all accredited, public, nonprofit, and proprietary post-secondary institutions). The credit is only available for the first four years of post-secondary education (undergraduate education). If a student progresses from an undergraduate to a graduate program during the tax year and has not already claimed the American Opportunity Tax Credit for four taxable years, the student can claim the American Opportunity Tax Credit for the entire taxable year.

You must file a federal income tax return to get the credit (even if you aren't required to file a return). If you are claimed as a dependent on someone's tax return, only the person who claims you can apply for the credit. If you are not claimed as a dependent on someone else's return, were under 24-years-old at the end of 2017 and your earned income was less than half of your support, you can claim the credit to reduce any tax you owe. You can't claim this credit if the student was convicted of a felony for possessing or distributing a controlled substance at any time on or before December 31, 2017.

NEW If you claim the American Opportunity Tax Credit even though you're not eligible, you may be banned from claiming the credit for up to 10 years.

NEW You must have a taxpayer identification number (TIN) by the due date of your 2017 return (including extensions) in order to claim the American Opportunity Tax Credit on either your original or an amended 2017 return, even if you later get a TIN.

Background

This credit replaced the Hope Credit and provides more generous benefits to more taxpayers. It was first available for the 2009 tax year and was to expire at the end of 2012, but has been extended through December 2017 by the American Taxpayer Relief Act of 2012 and therefore may be claimed on 2017 tax returns.

For more information, refer to IRS Publication 970.

The Lifetime Learning Tax Credit

Unlike other credits, the Lifetime Learning Tax Credit is available for all types of post-secondary education. Generally, you should only use this credit once you have exhausted your eligibility for more generous credits. This credit may be particularly helpful to graduate students.This credit provides up to $2,000 per tax return (not per student). Unlike the American Opportunity Tax Credit, this credit is non-refundable so the maximum credit is limited to the amount of tax you owe.

Eligibility Requirements

Your modified adjusted gross income (MAGI) is the total of your household's adjusted gross income plus any tax-exempt interest income you may have (these are the amounts on lines 37 and 8b of IRS form 1040). To qualify for the Lifetime Learning Tax Credit you must have a MAGI of less than $66,000 (for married couples filing a joint return, MAGI must be less than $132,000).

This credit can be used to offset what you paid for tuition and fees, as well as other expenses required by the institution for books, supplies and equipment (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) during 2017 for yourself, your spouse, or someone you claim as a dependent on your tax return.

You don't have to be pursuing a degree or certificate to qualify for the Lifetime Learning Tax Credit. You can claim it for any post-secondary education and for courses to acquire or improve job skills.

You must file a federal income tax return and have some income tax liability to get the credit. If you are claimed as a dependent on someone's tax return, only the person who claims you can receive the credit.

If you claim the American Opportunity Tax Credit for one or more students in your family, you can't use their expenses to claim the Lifetime Learning Tax Credit.

Unlike the American Opportunity Tax Credit, students who have felony drug convictions can still qualify for the Lifetime Learning Tax Credit.

For more information, refer to IRS Publication 970.

Claiming Tax Credits

To claim any higher education tax credit, you must report the amount of your qualified expenses (minus the amount of certain scholarships, grants, and tax-free employer-provided assistance received) on IRS Form 8863 - Education Credits.

For more information, refer to IRS Publication 970.

Tuition and Fees Tax Deduction

NEWThis deduction expired at the end of 2016 and is no longer available for tax year 2017.

Student Loan Interest Deduction

This deduction allows you to deduct interest paid on student loans for yourself, your spouse, or your dependents. It can reduce your taxable income by as much as $2,500. The amount of the Student Loan Interest Deduction you are eligible for depends on the amount of interest paid and your income. It is an adjustment to your income so you can claim this deduction even if you do not itemize deductions on Schedule A of Form 1040.

Eligibility Requirements

Your modified adjusted gross income (MAGI) is the total of your household's adjusted gross income plus any tax-exempt interest income you may have (these are the amounts on lines 37 and 8b 8b of IRS form 1040). To qualify for this deduction, your MAGI must be less than $80,000 (less than $165,000 if married and filing a joint return).

NEW for 2017, the amount of your student loan interest deduction is gradually reduced (phased out) if your MAGI is between $65,000 and $80,000 ($135,000 and $165,000 if you file a joint return).

Qualified student loans must have been used to fund educational expenses such as tuition, room and board, fees, and books for a student enrolled at least half-time and pursuing a degree, certificate, or similar program at an eligible institution (virtually all accredited, public, nonprofit, and proprietary postsecondary institutions).

You can't claim this deduction if you are married and file separately or if another person can claim you as a dependent on his or her tax return.

Figure your Student Loan Interest Deduction using the Student Loan Interest Deduction Worksheet 4-1.

For more information, refer to IRS Publication 970.

Taxes on Student Aid and Loan Forgiveness

Scholarships, fellowships, and grants that you received and that are reported on the 1098-T may need to be reported as taxable income in certain circumstances, but are often tax-free. In general, if you are pursuing a degree, certificate, or program of training towards gainful employment, and used the funds to pay tuition, fees, or for required books, supplies and equipment, these sources of assistance are not counted as taxable income. If you've received a student loan that can be forgiven, cancelled, or paid if you work for a certain period of time, in certain professions, for any of a broad class of employers, then the amounts forgiven may qualify for tax-free treatment. *For more information, refer to IRS Publication 970.*