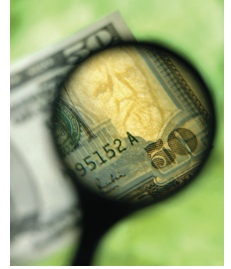


SY Associates

Steven Yeh, JD, MBA
Registered Principal, INVEST Financial
University Commons
1408 Sweet Home Road, Suite 6
Amherst, NY 14228
716-348-3425 x100
Steven.Yeh@investfinancial.com
www.StevenYeh.com



Education Tax Credits and Deductions



For parents and students trying to manage college bills and student loan payments, the federal government offers education-related tax benefits. The requirements for each are different, so here's what you need to know.

Hope credit (American Opportunity credit)

The Hope credit (renamed the American Opportunity credit for 2009 and 2010) is a tax credit available for the first four years of a student's undergraduate education, provided the student is attending school at least half-time in a program leading to a degree or certificate. The credit is worth up to \$2,500 in 2010 (it's calculated as 100% of the first \$2,000 of qualified expenses plus 25% of the next \$2,000 of expenses). The credit must be taken for the tax year that the expenses are paid, and parents must claim their child as a dependent on their tax return to take the credit.

To be eligible for the credit, your income must fall below certain limits. In 2010, a full credit is available to single filers with a modified adjusted gross income (MAGI) below \$80,000 and joint filers with a MAGI below \$160,000. A partial credit is available to single filers with a MAGI between \$80,000 and \$90,000 and joint filers with a MAGI between \$160,000 and \$180,000.

One nice feature of the American Opportunity credit is that it's calculated per student, not per tax return. So parents with two (or more) qualifying children in a given year can claim a separate credit for each child (assuming income limits are met).

The mechanics of claiming the credit are relatively easy. If you paid tuition and related expenses to an eligible educational institution during the year, the college generally must send you a Form 1098-T by February 1 of the following year. You then file Form 8863 with your federal tax return to claim the credit.

Lifetime Learning credit

The Lifetime Learning credit is another education tax credit, but it has a broader reach than the American Opportunity credit. As the name implies, the Lifetime Learning credit is available for college or graduate courses taken throughout your lifetime (the student can be you, your spouse, or your dependents), even if those courses are taken on a less than half-time basis and don't lead to a formal degree. However, this credit can't be taken in the same year as the

American Opportunity credit on behalf of the same student.

The Lifetime Learning credit is worth up to \$2,000 in 2010 (it's calculated as 20% of the first \$10,000 of qualified expenses). The Lifetime Learning credit must be taken for the same year that expenses are paid, and you must file Form 8863 with your federal tax return to claim the credit. In 2010, a full credit is available to single filers with a MAGI below \$50,000 and joint filers with a MAGI below \$100,000. A partial credit is available to single filers with a MAGI between \$50,000 and \$60,000 and joint filers with a MAGI between \$100,000 and \$120,000.

Unlike the American Opportunity credit, the Lifetime Learning credit is limited to \$2,000 per tax return per year, even if more than one person in your household qualifies independently in a given year.

If you have more than one family member attending college or taking courses at the same time, you'll need to decide which credit to take.

Example: Joe and Ann have a daughter, Mary, a college freshman, and a son, Ben, a college sophomore, who are attending school full-time. In addition, Joe is enrolled at a local college and is taking two graduate courses related to his job. How should the family maximize their tax credits? As a college freshman and sophomore attending school at least half-time, Mary and Ben each qualify for the American Opportunity credit. Plus, Mary, Ben, and Joe each qualify for the Lifetime Learning credit. Since the American Opportunity credit isn't limited to one per tax return, Joe and Ann should claim these credits on behalf of Mary and Ben (for a total of \$5,000) and a Lifetime Learning credit on behalf of Joe (for \$2,000). Joe and Ann can claim both the American Opportunity credit and the Lifetime Learning credit in the same year because each credit is taken on behalf of a different qualified student.

Student loan interest deduction

The federal government also offers a deduction for student loan interest that allows borrowers to deduct up to \$2,500 worth of interest paid each year on qualified student loans. Generally, federal student loans, private bank loans, college loans, and state loans are eligible. However, the debt must have been incurred while the student was attending school on at least a half-time basis in a program leading to a degree, certificate, or other recognized educational

Tax credit vs. tax deduction

A tax credit is more valuable than a tax deduction of the same amount. Why? A tax credit reduces any taxes owed on a dollar-for-dollar basis, whereas a tax deduction simply reduces the total income on which your taxes are based.



credential. So loans obtained to take courses that do not lead to a degree or other educational credential are not eligible for this deduction.

Your ability to take the student loan interest deduction depends on your income. For 2010, to take the full \$2,500 deduction (assuming that much interest is paid during the year) single filers must have a MAGI of \$60,000 or less and joint filers \$120,000 or less. A partial deduction is available for single filers with a MAGI between \$60,000 and \$75,000 and joint filers with a MAGI between \$120,000 and \$150,000.

Also, to be eligible for the deduction, an individual must have the primary obligation to pay the loan and must pay the interest during the tax year. The deduction may not be claimed by someone who can be claimed as a dependent on another taxpayer's return. Borrowers can take the student loan interest deduction in the same year as the American Opportunity credit or Lifetime Learning credit, provided they qualify for each independently.

Deduction for qualified higher education expenses

This deduction--for up to \$4,000 of out-of-pocket qualified higher education expenses that you pay during the year--is not available in 2010. It was, however, available in 2009.



Comparison of Education Tax Credits and Deductions

	Worth up to ...	Modified adjusted gross income (MAGI) limits	Qualified education expenses include
Hope credit (American Opportunity credit)	\$2,500	Single--\$80,000 or less (partial credit if between \$80,000 and \$90,000) Joint--\$160,000 or less (partial credit if between \$160,000 and \$180,000)	Tuition and fees, plus course materials
Lifetime Learning credit	\$2,000	Single--\$50,000 or less (partial credit if between \$50,000 and \$60,000) Joint--\$100,000 or less (partial credit if between \$100,000 and \$120,000)	Tuition and fees only
Student loan interest deduction	\$2,500	Single--\$60,000 or less (partial deduction if between \$60,000 and \$75,000) Joint--\$120,000 or less (partial deduction if between \$120,000 and \$150,000)	Tuition, fees, room and board, books, equipment, and other necessary expenses
Deduction for qualified higher education expenses	Not available in 2010 In 2009, deduction was worth \$4,000 (\$2,000 partial)	Not available in 2010 2009 income limits: Single--\$65,000 or less (\$2,000 deduction if between \$65,000 and \$80,000) Joint--\$130,000 or less (\$2,000 deduction if between \$130,000 and \$160,000)	Not available in 2010 For 2009, covers tuition and fees only

For more information on any of these federal tax benefits, see IRS Publication 970, Tax Benefits for Education.

Neither Forefield Inc. nor Forefield Advisor provides legal, taxation, or investment advice. All content provided by Forefield is protected by copyright. Forefield claims no liability for any modifications to its content and/or information provided by other sources. Steven Yeh, William Logue, and Anthony Scalise are Registered Representatives of **INVEST Financial Corporation**. INVEST Financial Corporation (INVEST), member FINRA, SIPC, a registered broker-dealer and federally registered investment advisor, is not affiliated with SY Associates and Clear Focus LLC. Securities, advisory services and certain insurance products are offered through INVEST and affiliated insurance agencies. Other insurance products are offered through SY Associates and Clear Focus LLC. INVEST does not provide tax advice.