

The Taxpayer Relief Act of 1997 and 2001 include many provisions that benefit those pursuing degrees in higher education. Two such provisions are the Lifetime Learning Credit and the Tuition and Fees Deduction.

Postponing your 2nd disbursement of Federal Direct Stafford Loan funds until early January 2014 will increase your chance for eligibility for these tax opportunities.

For both tax options, you must have income in 2014. For Graduating Medical Students, you may be eligible for this tax credit or deduction as you will have income in 2014 as a Hospital Resident.

See below for more information on both of these options!!

Lifetime Learning Credit

The Lifetime Learning Credit is a tax credit you may have claimed in 2011. The Lifetime Learning Credit is a nonrefundable credit. This means that it can reduce your tax to zero, but if the credit is more than your tax the excess will not be refunded to you. With minor adjustments to the manner in which payments are made to your tuition account, you may be eligible to claim the credit in 2013 and 2014. To best understand The Lifetime Learning Credit, please read the following:

- **PROVISIONS:** Twenty percent (20%) of first \$10,000 of qualified tuition and related expenses (i.e. **tuition and fees only; room, board and book expenses may not be included**) as credit toward income tax liability. (annual maximum of \$2000)
- **RESTRICTIONS:** Based on the current tax year (2012), the Lifetime Learning Credit is not available to single individuals with a modified adjusted income greater than \$60,000 and married individuals with a modified adjusted gross income of \$120,000. The maximum Lifetime Learning Credit is reduced for single individuals with a modified adjusted income between \$50,000 and \$60,000 and married individuals with a joint modified adjusted gross income between \$100,000 and \$120,000. See the IRS webpage for more info:
www.irs.gov/publications/p970/ch03.html

How will adjustments to tuition account payments allow you to take advantage of this credit in 2013 and 2014?

As stated above, this is a credit of twenty percent of the first \$10,000 (i.e. \$2000) of qualified tuition and related expenses. This includes payments made to your tuition account through loan funds. Because you are charged half of your tuition costs in 2013 and half in 2014, as long as you meet the income cutoffs, you may be eligible to take the credit in both years.

The first half of the 2013-2014 comprehensive fee was due July 2013. You may be eligible to claim this payment as part of your 2013 Lifetime Learning Credit if you will be covering any portion of your tuition bill with loan funds.

The second half of your tuition costs will be due in early January, but your loan funds are scheduled for disbursement on December 2, 2013. **In order to claim The Lifetime Learning Credit in 2013 (if eligible), your second disbursement must be applied to your tuition account in January 2014.**

The manner in which you would like these funds applied to your account is strictly your decision.

The Tuition and Fees Deduction

You may be able to deduct qualified education expenses paid during the year for yourself, your spouse, or your dependent(s). You cannot claim this deduction if your filing status is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education, as explained later under Qualified Education Expenses.

What is the tax benefit of the tuition and fees deduction? The tuition and fees deduction can reduce the amount of your income subject to tax by up to \$4,000. This deduction is taken as an adjustment to income. This means you can claim this deduction even if you do not itemize deductions on Schedule A (Form 1040). This deduction may be beneficial to you if you do not qualify for the American opportunity or lifetime learning credits.

Who Can Claim the Deduction

Generally, you can claim the tuition and fees deduction if all three of the following requirements are met.

1. You pay qualified education expenses of higher education.
2. You pay the education expenses for an eligible student.
3. The eligible student is yourself, your spouse, or your dependent for which you claim an exemption on your tax return.

The term “qualified education expenses” is defined later under [Qualified Education Expenses](#). “Eligible student” is defined later under [Who Is an Eligible Student](#). For more information on claiming the deduction for a dependent, see [Who Can Claim a Dependent's Expenses](#), later.

Table 6-1. Tuition and Fees Deduction at a Glance

| Question | Answer |
|---|--|
| What is the maximum benefit? | You can reduce your income subject to tax by up to \$4,000. |
| What is the limit on modified adjusted gross income (MAGI)? | \$160,000 if married filing a joint return; \$80,000 if single, head of household, or qualifying widow(er). |
| Where is the deduction taken? | As an adjustment to income on Form 1040 or Form 1040A. |
| For whom must the expenses be paid? | A student enrolled in an eligible educational institution who is either: •you, •your spouse, or •your dependent for whom you claim an exemption. |
| What tuition and fees are deductible? | Tuition and fees required for enrollment or attendance at an eligible postsecondary educational institution, but not including personal, living, or family expenses, such as room and board. |

Who Cannot Claim the Deduction - You cannot claim the tuition and fees deduction if any of the following apply.

- Your filing status is married filing separately.
- Another person can claim an exemption for you as a dependent on his or her tax return. You cannot take the deduction even if the other person does not actually claim that exemption.
- Your modified adjusted gross income (MAGI) is more than \$80,000 (\$160,000 if filing a joint return).

- You (or your spouse) were a nonresident alien for any part of 2013 and the nonresident alien did not elect to be treated as a resident alien for tax purposes. More information on nonresident aliens can be found in Publication 519.

What Expenses Qualify - The tuition and fees deduction is based on qualified education expenses you pay for yourself, your spouse, or a dependent for which you claim an exemption on your tax return. Generally, the deduction is allowed for qualified education expenses paid in 2013 in connection with enrollment at an institution of higher education during 2013 or for an academic period beginning in 2013 or in the first 3 months of 2014.

For example, if you paid \$1,500 in December 2013 for qualified tuition for the spring 2014 semester beginning in January 2014, you may be able to use that \$1,500 in figuring your 2013 deduction.

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. In the case of an educational institution that uses credit hours or clock hours and does not have academic terms, each payment period can be treated as an academic period.

Paid with borrowed funds. You can claim a tuition and fees deduction for qualified education expenses paid with the proceeds of a loan. Use the expenses to figure the deduction for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan payments sent directly to the educational institution as paid on the date the institution credits the student's account.

Student withdraws from class(es). You can claim a tuition and fees deduction for qualified education expenses not refunded when a student withdraws.

Qualified Education Expenses - For purposes of the tuition and fees deduction, qualified education expenses are tuition and certain related expenses required for enrollment or attendance at an eligible educational institution.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education. It includes virtually all accredited public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions. The educational institution should be able to tell you if it is an eligible educational institution.

Certain educational institutions located outside the United States also participate in the U.S. Department of Education's Federal Student Aid (FSA) programs.

Related expenses. Student-activity fees and expenses for course-related books, supplies, and equipment are included in qualified education expenses only if the fees and expenses must be paid to the institution as a condition of enrollment or attendance.

Prepaid expenses. Qualified education expenses paid in 2013 for an academic period that begins in the first three months of 2014 can be used in figuring an education credit for 2013 only. See [Academic period](#), earlier. For example, you pay \$2,000 in December 2013 for qualified tuition for the 2014 winter quarter that begins in January 2014, you can use that \$2,000 in figuring an education credit for 2013 only (if you meet all the other requirements).

You can choose the education benefit that will give you the lowest tax. You may want to compare the tuition and fees deduction to the Lifetime Learning Credit. If you have questions which is the best for you please contact a qualified tax preparer to further guide on the best choice for your particular financial situation.