

## **Tax Credits**

Please consult with your tax preparer on how to take advantage of the following education tax credits and deduction opportunities. Information on this page is not tax advice and is only intended to inform students and families of higher education tax credits.

Federal IRS tax benefit information: [Higher Education Tax Benefits](#)

## **Education Tax Credits & Deductions**

### **American Opportunity Credit (AOC)**

The American Opportunity Credit is a new credit that modifies the existing Hope Credit for tax years 2009 and 2010, making the Hope Credit available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. It also adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post- secondary education years instead of two.

The maximum amount of the AOC is \$2,500 per student. The credit is phased out (gradually reduced) if your modified adjusted gross income (AGI) is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return). **Exception.** For 2009, if you claim a Hope credit for a student who attended a school in a Midwestern disaster area, you can choose to figure the amount of the credit using the previous rules. However, you must use the previous rules in figuring the credit for all students for which you claim the credit.

The credit can be claimed for the first four years of post-secondary education. Previously the credit could be claimed for only the first two years of post-secondary education.

Generally, 40% of the AOC is now a refundable credit for most taxpayers, which means that you can receive up to \$1,000 even if you owe no taxes.

The term "qualified tuition and related expenses" has been expanded to include expenditures for "course materials." For this purpose, the term "course materials" means books, supplies, and equipment needed for a course of study whether the materials must be purchased from the educational institution as a condition of enrollment or attendance.

### **Community Service Loan Forgiveness**

Excludes from taxable income any loan amounts forgiven by non-profit, tax-exempt charitable or educational institutions for borrowers who take community- service jobs addressing unmet needs.

### **Coverdell Education Savings Accounts (ESA)**

A Coverdell ESA is a trust or custodial account set up in the United States solely for paying qualified education expenses for the designated beneficiary of the account. In general, the designated beneficiary of a Coverdell ESA can receive tax free distributions to pay qualified education expenses. The distributions are tax free to the extent the amount of the distributions does not exceed the beneficiary's

qualified education expenses. If a distribution does exceed the beneficiary's qualified education expenses, a portion of the distribution is taxable.

You may be able to contribute to a Coverdell Education Savings Account (ESA) to finance a beneficiary's qualified education expenses if your modified adjusted gross income is below the established amount. There is no limit to the number of accounts that can be established for a beneficiary; however, the total contribution to all accounts on behalf of a beneficiary in any year cannot exceed \$2,000.00. The contribution is NOT deductible. The designated beneficiary must be under the age of 18 years of age at the time the account is established, except for a special needs beneficiary. A taxpayer who uses tax-free distributions from an Education IRA may not, in the same year, benefit from the American Opportunity Credit.

### **Employer-Provided Education Benefits**

Section 127 of the tax code provides for undergraduates to exclude up to \$5,250 of employer-provided education benefits from their taxable income.

### **IRA Withdrawals**

Taxpayers may withdraw funds from an IRA, without penalty, for the higher education expenses of the taxpayer, spouse, child, or grandchild. The amount that can be withdrawn without penalty is limited to net post-secondary expenses for tuition, tuition fees, books, equipment, and room and board.

### **Lifetime Learning Credit**

For those beyond the first two years of college or taking classes part-time to improve or upgrade their job skills, the family will receive a 20% tax credit for first \$5,000 of tuition and tuition fees through 2002, and for the first 10,000 thereafter. The credit is available for net tuition and tuition fees (less grant aid) paid for post-secondary enrollment after June 30, 1998. The credit is available on a per-taxpayer (family) basis and has been phased out for joint filers between \$80,000 and \$100,000 of income, and for single filers between \$40,000 and \$50,000 (indexed after 2001). A taxpayer cannot claim both a Lifetime Learning Credit and an American Opportunity (or Hope) Credit for the same student in the same year.

### **Pre-Paid Tuition Plans**

Allows State-sponsored pre-paid tuition plans -- the earnings from which are not taxed until the time of withdrawal -- to include room and board expenses for students who attend on at least a half-time basis. Withdrawals are eligible for the HOPE Scholarship and Lifetime Learning tax credits.

### **Scholarships & Fellowships**

If you receive a scholarship or fellowship grant, all or part of the amounts you receive may be tax-free. Qualified scholarship and fellowship grants are treated as tax-free amounts if all the following conditions are met:

California State University, Bakersfield  
Office of Financial Aid & Scholarships

You are a candidate for a degree at an educational institution that maintains a regular faculty and curriculum and normally has a regular enrolled body of students in attendance at the place where it carries on its educational activities; and

Amounts you receive as a scholarship or fellowship are used for tuition and tuition fees required for enrollment or attendance at the educational institution, or for books, supplies, and equipment required for courses of instruction.

You must include in your gross income any amounts used for incidental expenses, such as room and board, travel, and optional equipment, and generally amounts received as payments for teaching, research, or other services required as a condition for receiving the scholarship or fellowship grant. However, you do not need to include in gross income any amounts you receive for services that are required by the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.

### **Student Loan Interest Deduction**

Allows an above-the-line deduction (the taxpayer does not need to itemize to benefit) for interest paid in the first 60 months of repayment on private or government-backed loans, post-secondary education and training expenses. The maximum deduction is \$1,000 in 1998, \$1,500 in 1999, \$2,000 in 2000, and \$2,500 in 2001 and beyond. It is phased out for joint filers with incomes between \$60,000 and \$75,000, and to single filers with incomes between \$40,000 and \$55,000 (indexed after 2002). The deduction is available for loans made before or after enactment of this provision, but only to the extent that the loan is within the first 60 months of repayment. The loan amount eligible for the deduction is limited to post-secondary expenses for tuition, tuition fees, books, equipment, room, and board.

### **Form 1098-T Information**

Colleges/Universities in which you are/were enrolled must furnish a 1098-T statement to you. These statements are typically mailed by the CSUB Student Financial Services Office, or their contractor, in late January, and reflect your qualified tuition and related expenses that were charged in the prior calendar year. You, or the person who can claim you as a dependent, may be able to use this form to claim an education tax credit on Form 1040 or 1040A. For more information on the 1098-T, please refer to the [1098-T Form instructions](#) on the IRS.gov website.