

A Menu of Educational Tax Benefits: Exclusions, Deductions and Credits Available for the 2004 Tax Year

To ensure you qualify to benefit from these programs and for important details consult Internal Revenue Service Publication 970 located here: <http://www.irs.gov/formspubs>

Exclusions allow a taxpayer to receive money for their education without having to count it as income depending on how the money is used.

Money that is used for:	Scholarships, Fellowships, Grants and Tuition Reductions	Employer-Provided Educational Assistance	Education Savings Bonds	Qualified Tuition Programs (*529 Plans*)	Coverdell Education Savings Account
Tuition and fees	yes	yes	yes	yes	yes
Books and supplies	yes	yes	no	yes**	yes**
Room and board*	no	no	no	yes	yes
Transportation	no	no	no	no	no
Deposit in a "Qualified Tuition Program" or Coverdell ESA	no	no	yes	no	yes
Restrictions					
At an eligible higher educational institution only	yes	no	yes	yes	no
Limited by income	no	no	yes	no	no***
Exclusion limited	no	\$5,250	no	no	no***

* Room and board may only be included if student attends at least half-time and only to the amount of the allowance for room and board determined by the educational institution or the actual amount charged by that institution.

** Expenses for books, supplies, and equipment are included if required by the educational institution for enrollment or attendance.

*** Although there are no income or withdrawal exclusions, there are income and amount limitations on contributions.

Programs (See chart)

Scholarships, Fellowships, Grants and Tuition Reductions – Internal Revenue Code Section 117. Students who are degree candidates may exclude from income money received from grants, scholarships or fellowships. The money may not be direct or indirect payment for any past, present, or future work, such as teaching or research.

Employer-Provided Educational Assistance – Internal Revenue Code Section 127. Students may exclude from income money received from an employer's educational assistance program. The employer must have written policy that does not discriminate in favor of only a few employees or company shareholders.

Education Savings Bonds – Internal Revenue Code Section 135. Taxpayers may exclude from income the interest paid from qualified U.S. Savings Bonds. This exclusion may be claimed by the taxpayer who cashed in the bonds to pay the student's qualified expenses so long as the taxpayer is the student or claims an exemption for the student on his or her tax return. The Bond must be issued in the taxpayer's name no earlier than the student's 24th birthday. The Bond must be a Series EE Bond purchased after 1989 or a Series I Bond. This benefit may be reduced if a single taxpayer makes more than \$59,850. The benefit may be eliminated if that taxpayer makes more than \$74,850. For those married filing separately, the restrictions for a single taxpayer apply. This benefit may be reduced if a couple files a joint return and has combined income more than \$89,750. The benefit may be eliminated if that couple makes \$119,750.

Qualified Tuition Programs – Internal Revenue Code Section 529. (*State programs that allow prepayment or contributions to pay for education expenses known as "529 Plans".*) Students may exclude the money or the value of benefits received from these programs.

Tax Credits are subtracted from the tax you owe. A taxpayer who paid qualified expenses for the student may take the credit so long as the taxpayer is the student or claims an exemption for the student on his or her tax return.

Money that is used for:	Hope Credit	Lifetime Learning Credit
Tuition and academic fees	yes	yes
Books and supplies or non-academic fees	no	no
Room and board	no	no
Transportation	no	no
Restrictions		
Taxpayer must not be a claimed dependent on another's return	yes	yes
At an eligible higher educational institution only	yes	yes
Limited by income	yes	yes
Credit limited	\$1,500	\$2,000
Limited to certain years	yes	no

Programs (See chart)

Hope Credit – Internal Revenue Code Section 25A(b). To claim the Hope Credit, the undergraduate student must be pursuing a degree or recognized education credential and attend a higher education institution for at least half-time for one academic semester. The credit may only be claimed for the first two years of post-secondary education. *If married, the taxpayer must file a joint return.* A student convicted of certain drug crimes may not claim the credit for the year of the conviction or thereafter. The credit is limited to \$1,500 *per student*. The first \$1,000 of qualified expenses generate a dollar-for-dollar credit, up to \$1,000. The next \$1,000 of qualified expenses generate a two-for-one credit: up to \$500. This benefit may be reduced if a single taxpayer makes more than \$42,000. The benefit may be eliminated if that taxpayer makes more than \$52,000. This benefit may be reduced if a couple has combined income more than \$85,000. The benefit may be eliminated if that couple makes more than \$105,000.

Lifetime Learning Credit – Internal Revenue Code Section 25A(c). To claim the Lifetime Learning Credit, a student must take at least one course at a qualified higher education institution during the year. *If married, the taxpayer must file a joint return.* The credit is limited to \$2,000 *per return*. This benefit may be reduced if a single taxpayer makes more than \$42,000. The benefit may be eliminated if that taxpayer makes more than \$52,000. This benefit may be reduced if a couple has combined income more than \$85,000. The benefit may be eliminated if that couple makes more than \$105,000.

If you qualify for more than one of these benefits, some restrictions may apply. You may not be free to decide which tax benefit to use. The Internal Revenue Code may require you to use one benefit instead of another depending on your circumstances. To view an explanation of these rules, consult the extended discussion located alongside this document at www.abanet.org/tax/taxtips4u/individual.html.