

MICHIGAN STATE UNIVERSITY

Information About The Hope and Lifetime Learning Education Tax Credits

Changes for the tax year 2006 are
highlighted in red.

TAX CREDITS FOR COLLEGE EDUCATION

The Taxpayer Relief Act of 1997, passed into law by Congress, includes several education tax benefits designed to lessen the financial burdens of higher education.

The Hope Credit and the Lifetime Learning Credit allow eligible taxpayers to claim a tax credit against their federal income tax for qualified tuition and related expenses. The credits may be taken by either the parents of dependent students or by students who are not claimed as dependents on another person's tax return.

Reporting requirements for tax year 2006 instruct the University to provide Form 1098-T to both the IRS and the student. Financial information is required to be reported on the Form 1098-T. Educational institutions may choose to report either payments received or amounts billed for qualified tuition and related expenses. Since MSU has chosen to report amounts billed, only box 2 will contain a dollar amount. Box 1 will be blank. The data at the bottom of the enclosed Form 1098-T includes detailed financial information for your records only. **THE FINANCIAL INFORMATION ON THE BOTTOM OF THE FORM WAS NOT SUPPLIED TO THE IRS.**

The IRS instructs the University to report transactions that occurred only during the calendar year. Any adjustments to tuition or scholarships that occurred after December 31 will be reported on the following year 1098-T.

Amounts billed for qualified tuition appearing in Box 2 may include tuition charges applied to the student account in 2006 for spring semester 2007. The tax credit can only be claimed in the year that the spring 2007 charges were *paid*. If you pay part or all of these in 2007, you will need to refer to your 2006 1098-T when preparing your taxes.

THE HOPE CREDIT is available to eligible students for payments made for their first two years of post-secondary education and may be claimed for two tax years only. **The credit is generally equal to 100% of the first \$1,100 and 50% of the next \$1,100** of qualified expenses per eligible student. Scholarships, grants, and other tax-free tuition benefits offset qualified education expenses. Students must be enrolled at least half-time for at least one academic period that begins during the tax year. Education expenses paid on or after January 1, 2006 for academic periods beginning January 1, 2006 or after are eligible for the Hope Credit. A taxpayer is allowed one Hope Credit per eligible student per year.

THE LIFETIME LEARNING CREDIT is available to students for payments made for undergraduate, graduate, continuing education course work or courses that help the student acquire or improve job skills. The credit is generally equal to 20% of the first \$10,000 of out-of-pocket qualified tuition and related expenses. The maximum credit is \$2,000 per family, not per student. Scholarships, grants, and other tax-free tuition benefits offset qualified education expenses. A taxpayer is limited to one Lifetime Learning Credit per year regardless of the number of eligible dependent students in the family.

Some of the *eligibility criteria* that students (or the taxpayer claiming the student as their dependent) must meet for **either** of these two tax credits include:

- ♦ Qualified expenses paid on or after January 1 of the tax year for academic periods beginning after that date include tuition and required fees but specifically exclude books, room and board, insurance, transportation, etc.

- ◆ Qualified payments must be “out-of-pocket” and may include earnings, loans, inheritance, gifts, or personal savings (including savings from a qualified state tuition program (i.e. Michigan Education Trust)).
- ◆ Qualified payments do not include tax-free grants and scholarships, tax-free employer-provided educational assistance or a tax-free distribution from an Education IRA.
- ◆ The full credit is available to married taxpayers filing jointly with a modified adjusted gross income (MAGI) of less than \$90,000 and to single taxpayers with a MAGI of less than \$45,000. The credit is gradually reduced for married taxpayers filing jointly who have modified adjusted gross income between \$90,000 and \$110,000 (\$45,000 to \$55,000 for single taxpayers). You cannot claim either credit if your filing status is married filing separately.
- ◆ Taxpayers **cannot** claim both the Hope credit and the Lifetime Learning credit for the **same** student in the same tax year.
- ◆ The Hope credit is based on the student’s status as of January 1st. If a student has not completed his or her first two years prior to the start of the tax year, all of the student’s qualified expenses for the year may be included in calculating the credit (i.e. if a student begins the tax year as a sophomore, but finishes the tax year as a junior, the Hope credit may still be claimed for all qualified payments during that tax year as long as the Hope credit has not already been claimed in two tax years).

PREPAID EXPENSES - Qualified expenses paid in 2006 for an academic period that **begins** in the first 3 months of 2007 can be used in figuring your 2006 education credits.

AN ABOVE THE LINE DEDUCTION that was set to expire at the end of 2005 was extended by Congress and signed into law in mid December, 2006. Most tax forms had already been sent to the printers and may not contain a line item for this deduction. Filing information will be posted on the IRS Web site and in IRS Publication 553. For more details, go to www.irs.gov, click on *More Forms and Publications*, and then on *What’s Hot in Forms and Publications*, or see Pub. 553.

The above-the-line deduction allows married taxpayers filing jointly with MAGI of up to \$130,000 (\$65,000 for single filers) to deduct up to \$4,000 in higher education expenses. Married taxpayers filing jointly with MAGI larger than \$130,000 (\$65,000 for single filers) but not more than \$160,000 (\$80,000 for single filers) can deduct up to \$2,000. No tuition and fees deduction is allowed if your MAGI is larger than \$160,000 (\$80,000 for single filers) or if your filing status is married filing separately. A taxpayer may not claim the above-the-line deduction if a Hope tax credit or a Lifetime Learning tax credit is claimed. If your social security number or any of the information on your Form 1098-T appears to be incorrect, please contact the MSU Student Accounts Office at (517) 355-5050, or (517) 355-3343, or (800) 775-4323 if out of town.

MSU cannot provide tax advice, however, if you have questions regarding the validity of the financial information shown on the Form 1098-T, please contact the MSU Student Accounts Office at (517) 355-5050, or (517) 355-3343, or (800) 775-4323 if out of town.

For further information about the Taxpayer Relief Act of 1997, including the Education Tax Credits, see:

- ◆ IRS Publication 970, Tax Benefits for Education. Call 1-800-TAX-FORM or retrieve through the Internet: www.irs.ustreas.gov/prod/forms_pubs/
- ◆ IRS Form 8863 (Education Credits) and Instructions to calculate and claim the Hope and Lifetime Learning credits
- ◆ <http://www.nasfaa.org/AnnualPubs/TaxBenefitsGuideIntroFaa.html>
- ◆ A personal tax advisor

This information is not intended as legal or tax advice. Please consult with a personal tax advisor to determine your eligibility for education tax credits.