

Education Credits

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October 19, 2016



Forms



What's New

- Taxpayer identification number is needed by due date of return
- If the client does not have a taxpayer identification number (TIN) by the due date of the 2016 return (including extensions), they can't claim the American opportunity credit on either the original or an amended 2016 return, even if they later get a TIN
- Also, the American opportunity credit isn't allowed on either an original or an amended 2016 return for a student who doesn't have a TIN by the due date of the return (including extensions), even if that student later gets a TIN

Form 8917 **Tuition and Fees Deduction** OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (IRS) **2016** Attachment Sequence No. 60
 ▶ Attach to Form 1040 or Form 1040A. ▶ Information about Form 8917 and its instructions is at www.irs.gov/form8917. Your social security number

CAUTION You cannot take both an education credit from Form 8863 and the tuition and fees deduction from this form for the same student or for the same taxpayer.
 Before you begin: To see if you qualify for this deduction, see **Who Can Take the Deduction** in the instructions below.

If you file Form 1040, figure any write-in adjustments to be entered on the dotted line next to Form 1040, line 36. See the 2016 Form 1040 instructions for line 36.

1	(a) Student's name as shown on page 1 of your tax return First name Last name	(b) Student's social security number (do not put an "X" in front of your tax return)	(c) Adjusted qualified expenses (see instructions)
2	Add the amounts on line 1 to Form 1040 (c), and enter the total		
3	Enter the amount from Form 1040, line 22, or Form 1040A, line 15		
4	Enter the total from either: • Form 1040, lines 23 through 33, plus any write-in adjustments entered on the dotted line next to Form 1040, line 36, or • Form 1040A, lines 16 through 18		
5	Subtract line 4 from line 3. If the result is more than \$80,000 (\$160,000 if married filing jointly), stop; you cannot take the deduction for tuition and fees		
6	Tuition and fees deduction. Is the amount on line 5 more than \$65,000 (\$130,000 if married filing jointly)? <input type="checkbox"/> Yes. Enter the smaller of line 2, or \$2,000. <input type="checkbox"/> No. Enter the smaller of line 2, or \$4,000.		

Also enter this amount on Form 1040, line 34, or Form 1040A, line 19.

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 37728P Form 8917 (2016)

Form 8863 **Education Credits** OMB No. 1545-0074
 (American Opportunity and Lifetime Learning Credits) **2016** Attachment Sequence No. 60
 Department of the Treasury Internal Revenue Service (IRS) ▶ Attach to Form 1040 or Form 1040A. ▶ Information about Form 8863 and its separate instructions is at www.irs.gov/form8863. Your social security number

CAUTION Complete a separate Part III on page 2 for each student for whom you're claiming either credit before you complete Parts I and II.

Part I Refundable American Opportunity Credit

1	After completing Part III for each student, enter the total of all amounts from all Parts III, line 30	1
2	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	2
3	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you're filing Form 2555, 2555-EZ, or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter	3
4	Subtract line 3 from line 2. If zero or less, stop; you can't take any education credit	4
5	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	5
6	If line 4 is: • Equal to or more than line 5, enter 1,000 on line 6 • Less than line 5, divide line 4 by line 5. Enter the result as a decimal rounded to at least three places	6
7	Multiply line 1 by line 6. Caution: If you were under age 24 at the end of the year and meet the conditions described in the instructions, you can't take the refundable American opportunity credit; skip line 8, enter the amount from line 7 on line 9, and check this box <input type="checkbox"/>	7
8	Refundable American opportunity credit. Multiply line 7 by 40% (0.40). Enter the amount here and on Form 1040, line 68, or Form 1040A, line 44. Then go to line 9 below	8

Part II Nonrefundable Education Credits

9	Subtract line 8 from line 7. Enter here and on line 2 of the Credit Limit Worksheet (see instructions)	9
10	After completing Part III for each student, enter the total of all amounts from all Parts III, line 31. If zero, skip lines 11 through 17, enter -0- on line 18, and go to line 19	10
11	Enter the smaller of line 10 or \$10,000	11
12	Multiply line 11 by 20% (0.20)	12
13	Enter: \$131,000 if married filing jointly; \$65,000 if single, head of household, or qualifying widow(er)	13
14	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you're filing Form 2555, 2555-EZ, or 4563, or you're excluding income from Puerto Rico, see Pub. 970 for the amount to enter	14
15	Subtract line 14 from line 13. If zero or less, skip lines 16 and 17, enter -0- on line 18, and go to line 19	15
16	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	16
17	If line 15 is: • Equal to or more than line 16, enter 1,000 on line 17 and go to line 18 • Less than line 16, divide line 15 by line 16. Enter the result as a decimal rounded to at least three places	17
18	Multiply line 12 by line 17. Enter here and on line 1 of the Credit Limit Worksheet (see instructions)	18
19	Nonrefundable education credits. Enter the amount from line 7 of the Credit Limit Worksheet (see instructions) here and on Form 1040, line 50, or Form 1040A, line 33	19

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 25379M Form 8863 (2016)

Form 8863 (2016) Page **2**
Name(s) shown on return _____ Your social security number _____

CAUTION Complete Part III for each student for whom you're claiming either the American opportunity credit or lifetime learning credit. Use additional copies of page 2 as needed for each student.

Part III Student and Educational Institution Information
See instructions.

20 Student name (as shown on page 1 of your tax return)	21 Student social security number (as shown on page 1 of your tax return)
22 Educational institution information (see instructions).	
a. Name of first educational institution	b. Name of second educational institution (if any)
(1) Address, number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.	(1) Address, number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.
(2) Did the student receive Form 1098-T from this institution for 2016? <input type="checkbox"/> Yes <input type="checkbox"/> No	(2) Did the student receive Form 1098-T from this institution for 2016? <input type="checkbox"/> Yes <input type="checkbox"/> No
(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No	(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No
If you checked "No" in both (2) and (3), skip (4).	If you checked "No" in both (2) and (3), skip (4).
(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T). - - - - -	(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T). - - - - -

23 Has the Hope Scholarship Credit or American opportunity credit been claimed for this student for any 4 tax years before 2016? ☐ Yes — **Stop!** Go to line 31 for this student. ☐ No — Go to line 24.

24 Was the student enrolled at least half-time for at least one academic period that began or is treated as having begun in 2016 at an eligible educational institution in a program leading towards a postsecondary degree, certificate, or other recognized postsecondary educational credential? See instructions. ☐ Yes — Go to line 25. ☐ No — **Stop!** Go to line 31 for this student.

25 Did the student complete the first 4 years of postsecondary education before 2016? See instructions. ☐ Yes — **Stop!** Go to line 31 for this student. ☐ No — Go to line 26.

26 Was the student convicted, before the end of 2016, of a felony for possession or distribution of a controlled substance? ☐ Yes — **Stop!** Go to line 31 for this student. ☐ No — Complete lines 27 through 30 for this student.

CAUTION You can't take the American opportunity credit and the lifetime learning credit for the **same student** in the same year. If you complete lines 27 through 30 for this student, don't complete line 31.

American Opportunity Credit

27 Adjusted qualified education expenses (see instructions). Don't enter more than \$4,000	27
28 Subtract \$2,000 from line 27. If zero or less, enter -0-	28
29 Multiply line 28 by 25% (0.25)	29
30 If line 28 is zero, enter the amount from line 27. Otherwise, add \$2,000 to the amount on line 29 and enter the result. Skip line 31. Include the total of all amounts from all Parts III, line 30, on Part I, line 1	30
Lifetime Learning Credit	
31 Adjusted qualified education expenses (see instructions). Include the total of all amounts from all Parts III, line 31, on Part II, line 10	31

Form 8863 (2016)

Three Options

- Tuition and Fees deduction
- American Opportunity Credit
- Lifetime Learning Credit

Chart

Criteria	AOTC	LLC	Tuition and Fees Deduction
Maximum credit or benefit	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return	Up to \$4,000 taxable income reduction per return
Refundable or nonrefundable	40% of credit	Not refundable	Does not apply

Phase-Outs Per Option

Criteria	AOTC	LLC	Tuition and Fees
Limit on MAGI for married filing jointly	\$180,000	\$131,000	\$160,000
Limit on MAGI for single, head of household, or qualifying widow(er)	\$90,000	\$65,000	\$80,000
Can you file married filing separately?	No	No	No

Interactive Application

- <https://www.irs.gov/uac/am-i-eligible-to-claim-an-education-credit>

Am I Eligible to Claim an Education Credit?



This interview will help you determine if you're eligible for certain educational credits or deductions including the American Opportunity Credit, the Lifetime Learning Credit, and the Tuition and Fees Deduction.

The tool is designed for use by taxpayers that were U.S. citizens or resident aliens for the entire tax year for which they're inquiring about. If married, the spouse must also have been a U.S. citizen or resident alien for the entire tax year. For information regarding nonresidents or dual status aliens, please see [Publication 519, U.S. Tax Guide for Aliens](#).


Information You'll Need:

- Filing status
- Student's enrollment status
- Your adjusted gross income
- Who paid the expenses, when the expenses were paid, and for what academic period
- If any expenses were paid with tax-exempt funds
- If any expenses were paid with distributions from a Coverdell Education Savings Account or Qualified Tuition Program

Estimated Completion Time: 10 minutes.

Note: After 15 minutes of inactivity, you'll be forced to start over.

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Am I Eligible to Claim an Education Credit?

The following set of questions will help you determine if you can claim the American Opportunity Credit, the Lifetime Learning Credit, or the Tuition and Fees Deduction.

Please click the **Continue** button to proceed.

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Tax Year

What tax year are you asking about?

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Selected Filing Status

What is your filing status for 2015?

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You or Spouse are Claimed as a Dependent on Another Taxpayer's Return

Are you or your spouse being claimed as a dependent on another taxpayer's return?

☐ Yes ☒ No

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Eligible School

During 2015, was the student enrolled at a postsecondary educational institution eligible to participate in a student aid program administered by the U.S. Department of Education?

☒ Yes ☐ No

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Enrolled for One Academic Period

For at least one academic period beginning during 2015, was the student enrolled at least half time in a program leading to a degree, certificate, or other recognized educational credential?

☒ Yes ☐ No

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Student

Who is the student?

The student is your dependent for whom you are claiming an exemption

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Year Expenses Paid

Were the education expenses paid during 2015?

☒ Yes ☐ No

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Academic Period

Were the education expenses paid for an academic period that began during 2015 or the first 3 months of 2016?

☒ Yes ☐ No

CONTINUE

Interactive Application

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. The header includes the IRS logo, navigation links (Filing, Payments, Refunds, Credits & Deductions, News & Events, Forms & Pubs, Help & Resources, for Tax Pros), a search bar, and a language selector. The main content area is titled 'Interactive Tax Assistant (ITA)' and 'Who Paid the Expenses?'. It asks 'Who paid the expenses?' with a dropdown menu showing 'You and/or your spouse'. A 'CONTINUE' button is at the bottom.

Interactive Application


- All, Part or None

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. The header is the same as the first screenshot. The main content area is titled 'Interactive Tax Assistant (ITA)' and 'Tax Exempt Funds'. It asks 'What portion of the expenses was paid with tax exempt funds?' and lists examples of tax-exempt funds: 'The tax-free parts of scholarships and fellowships', 'Prize grants', 'Employer-provided educational assistance', 'Veterans' educational assistance', and 'Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance'. A 'Select One' dropdown menu is shown with 'CONTINUE' at the bottom.

Interactive Application

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. The header is the same as the first screenshot. The main content area is titled 'Interactive Tax Assistant (ITA)' and 'Refund of Expenses'. It asks 'Was a refund received for any educational expenses previously paid for 2015?' with radio buttons for 'Yes' and 'No'. A 'CONTINUE' button is at the bottom.

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Coverdell ESA or QTP

Was a distribution from a Coverdell ESA or Qualified Tuition Program (QTP) used to pay the expenses?
☐ Yes ☒ No

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Double Benefits

Are you claiming these education expenses anywhere else on your tax return?
☐ Yes ☒ No

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First Four Years of School Completed

Has the student received four years academic credit for postsecondary education before the beginning of 2015?
☐ Yes ☒ No

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American Opportunity Credit Claimed for Student

Has the Hope credit and/or American opportunity credit been claimed more than 3 times in the past for this student?

☐ Yes ☒ No

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Conviction for Possessing or Distributing a Controlled Substance

As of the end of 2015, does the student have a felony conviction for possessing or distributing a controlled substance?

☐ Yes ☒ No

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Adjusted Gross Income Known

Do you know the amount of your adjusted gross income (AGI) for 2015?

☒ Yes ☐ No

Note: If you file Form 1040A, your AGI is the amount on line 22 of that form. If you file Form 1040, your AGI is the amount on line 38 of that form.

CONTINUE

Interactive Application

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. At the top, there's a navigation bar with links for Filing, Payments, Refunds, Credits & Deductions, News & Events, Forms & Pubs, Help & Resources, and for Tax Pros. Below this, the title "Interactive Tax Assistant (ITA)" is displayed. The main heading is "Adjusted Gross Income". The question asks, "What is your adjusted gross income?". A note states, "Note: If zero, enter 0." There is a text input field containing "155,000" and a "CONTINUE" button.

Interactive Application

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. At the top, there's a navigation bar with links for Filing, Payments, Refunds, Credits & Deductions, News & Events, Forms & Pubs, Help & Resources, and for Tax Pros. Below this, the title "Interactive Tax Assistant (ITA)" is displayed. The main heading is "Foreign Income". The question asks, "Are you claiming any foreign earned income exclusion or deduction (Form 2555 or Form 2555-EZ), or excluding income from Puerto Rico, American Samoa (Form 4563)?". There are two radio button options: "Yes" and "No". The "No" option is selected. There is a "CONTINUE" button.

Interactive Application

The screenshot shows the IRS Interactive Tax Assistant (ITA) interface. At the top, there's a navigation bar with links for Filing, Payments, Refunds, Credits & Deductions, News & Events, Forms & Pubs, Help & Resources, and for Tax Pros. Below this, the title "Interactive Tax Assistant (ITA)" is displayed. The main heading is "Domestic Production Activities Deduction". The question asks, "Are you filing Form 8803, Domestic Production Activities Deduction?". There are two radio button options: "Yes" and "No". The "No" option is selected. There is a "CONTINUE" button.

Interactive Application

You are eligible to claim the American opportunity credit.

You are not eligible to claim the lifetime learning credit.

Based on your adjusted gross income (AGI), you cannot take the lifetime learning credit because your income is too high.

You are eligible to claim the tuition and fees deduction.

Due Diligence

- Form 8867 is also required to be completed and due diligence performed for the American Opportunity Credit

Form 8867 **Paid Preparer's Due Diligence Checklist** OMB No. 1545-0048

Department of the Treasury Internal Revenue Service **16** Required No. 177

▶ To be completed by preparer and filed with Form 1040, 1040A, 1040EZ, 1040NR, 1040SS, or 1040PR.
▶ Information about Form 8867 and its separate instructions is at www.irs.gov/form8867.

Taxpayer name (shown on return) Taxpayer identification number

Enter preparer's name and PTIN

Due Diligence Requirements

Please complete the appropriate column for all credits claimed on this return (check all that apply).

	EIC	CTC/AOTC	AOTC
1 Did you complete the return based on information for tax year 2014 provided by the taxpayer or reasonably obtained by you? (check all that apply).	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
2 Did you complete the applicable EIC and/or CTC/AOTC worksheets found in the Form 1040, 1040A, 1040EZ, or 1040NR instructions and/or the AOTC worksheet found in the Form 8863 instructions, or your own worksheet(s) that provides the same information, and all related forms and schedules for each credit claimed?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
3 Did you satisfy the knowledge requirement? Answer "Yes" only if you can answer "Yes" to both 3a and 3b. To meet the knowledge requirement, did you:	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
a Interview the taxpayer, ask adequate questions, and document the taxpayer's responses to determine that the taxpayer is eligible to claim the credit(s)?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
b Review adequate information to determine that the taxpayer is eligible to claim the credit(s) and in what amount?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>

Form 8867 Ppage 2

Due Diligence Questions for Returns Claiming AOTC (if the return does not claim AOTC, go to Credit Eligibility Certification.)

11 Did the taxpayer provide substantiation such as a Form 1098-T and receipts for the qualified tuition and related expenses for the claimed AOTC? ☐ Yes ☐ No

Tuition and Fees

- Use Form 8917 to figure and take the deduction for tuition and fees expenses paid in 2016
- The maximum deduction is \$4,000
- This deduction is based on adjusted qualified education expenses paid to an eligible educational institution (postsecondary)
- First check out to determine if the client can take the American Opportunity Credit or Lifetime Learning Credit for education expenses

Who Can Take the Deduction

- The client may be able to take the deduction if the client or spouse, or a dependent claimed on the tax return was a student enrolled at or attending an eligible educational institution
- The deduction is based on the amount of qualified education expenses paid for the student in 2016 for academic periods beginning in 2016 or beginning in the first 3 months of 2017

Who Can Take the Deduction

- Generally, in order to claim the deduction for education expenses for a dependent, the client must have paid the expenses in 2016 and must claim an exemption for the student as a dependent on the 2016 tax return

If Any of the Following Applies the Client Cannot Take the Deduction

- The filing status is married filing separately
- Another person can claim an exemption for the individual as a dependent on his or her tax return
- The individual cannot take the deduction even if the other person does not actually claim that exemption
- The modified adjusted gross income (MAGI), as figured on line 5, is more than \$80,000 (\$160,000 if filing a joint return)
- The individual is a nonresident alien for any part of the year and did not elect to be treated as a resident alien for tax purposes

If Any of the Following Applies the Client Cannot Take the Deduction

- The client cannot claim a tuition and fees deduction for any student if they or anyone else claims an American Opportunity or Lifetime Learning Credit (Form 8863) in 2016 with respect to expenses of the student for whom the qualified education expenses were paid
- However, a state tax credit will not disqualify the client from claiming a tuition and fees deduction

MAGI

- Generally, the MAGI is the amount on the Form 1040, line 38, or Form 1040A, line 22
- However, if the client is filing Form 2555, Foreign Earned Income; Form 2555-EZ, Foreign Earned Income Exclusion; or Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa; or are excluding income from Puerto Rico
- ADD to the amount on the Form 1040, line 38, or Form 1040A, line 22, the amount of income excluded

Qualified Education Expenses

- Generally, qualified education expenses are amounts paid in 2016 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution
- Required fees include amounts for books, supplies, and equipment used in a course of study if required to be paid to the institution as a condition of enrollment or attendance
- It does not matter whether the expenses were paid in cash, by check, by credit or debit card, or with borrowed funds

Qualified Education Expenses

- Qualified education expenses include nonacademic fees, such as student activity fees, athletic fees, or other expenses unrelated to the academic course of instruction, only if the fee must be paid to the institution as a condition of enrollment or attendance
- Fees for personal expenses are never qualified education expenses
- Personal expenses
 - This means room and board, insurance, medical expenses (including student health fees), transportation, and other similar personal, living, or family expenses
 - Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or helps the student acquire or improve job skills
- Qualified education expenses do not include any expenses for which you take any other deduction, such as on Schedule A (Form 1040) or Schedule C (Form 1040)

Form 1098-T

- The client may receive Form 1098-T, Tuition Statement, from the institution reporting either payments received in 2016 (box 1) or amounts billed in 2016 (box 2)
- However, the amount in box 1 or 2 of Form 1098-T may be different from the amount paid (or are treated as having paid)
- In completing Form 8917, use only the amounts actually paid (plus any amounts that are treated as having paid) in 2016
- Qualified education expenses paid directly to the institution by someone other than the client or the student are treated as paid to the student and then paid by the student to the institution

2016 Form 1098-T

8383 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1574	
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses	2016 Form 1098-T
		2 Amounts billed for qualified tuition and related expenses	
FILER'S federal identification no.	STUDENT'S taxpayer identification no.	3 Check if you have changed your reporting method for 2016 <input type="checkbox"/>	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2016 General Instructions for Certain Information Returns.
STUDENT'S name		4 Adjustments made for a prior year <input type="checkbox"/>	
Street address (including apt. no.)		5 Scholarships or grants for a prior year <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		6 Adjustments to scholarships or grants for a prior year <input type="checkbox"/>	7 Check this box if the amount in box 1 or 2 includes amounts for an academic period beginning January 1 – March 2017 <input type="checkbox"/>
Service Provider/Act. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund <input type="checkbox"/>
Form 1098-T Cat. No. 200813 www.irs.gov/form1098 Department of the Treasury - Internal Revenue Service Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page			

2017 Form 1098-T

8383 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1574	
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses	2017 Form 1098-T
		2	
FILER'S federal identification no.	STUDENT'S taxpayer identification no.	3 Check if you have changed your reporting method for 2017 <input type="checkbox"/>	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2017 General Instructions for Certain Information Returns.
STUDENT'S name		4 Adjustments made for a prior year <input type="checkbox"/>	
Street address (including apt. no.)		5 Scholarships or grants for a prior year <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		6 Adjustments to scholarships or grants for a prior year <input type="checkbox"/>	7 Check this box if the amount in box 1 includes amounts for an academic period beginning January 1 – March 2018 <input type="checkbox"/>
Service Provider/Act. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>	10 Ins. contract reimb./refund <input type="checkbox"/>
Form 1098-T Cat. No. 200813 www.irs.gov/form1098 Department of the Treasury - Internal Revenue Service Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page			

Academic Period

- An academic period is any quarter, semester, trimester, or any other period of study as reasonably determined by an eligible educational institution
- If an eligible educational institution uses credit hours or clock hours and does not have academic terms, each payment period may be treated as an academic period

Prepaid Expenses

- Qualified education expenses paid in 2016 for an academic period that begins in the first 3 months of 2017 can be used in figuring the tuition and fees deduction for 2016 only
- For example, if the client pays \$2,000 in December 2016 for qualified tuition for the 2017 winter quarter that begins in January 2017, the client can use that \$2,000 in figuring the tuition and fees deduction for 2016 only

Adjusted Qualified Education Expenses

- For each student, reduce the qualified education expenses paid by or on behalf of that student under the following rules
- The result is the amount of adjusted qualified education expenses
- for each student
 - Tax-free educational assistance
 - Refunds
 - A refund of qualified education expenses may reduce adjusted qualified education expenses for the tax year or may require the client to include some or all of the refund in their gross income for the year the refund is received
 - Refunds received in 2016
 - For each student, figure the adjusted qualified education expenses for 2016 by adding all the qualified education expenses paid in 2016 and subtracting any refunds of those expenses received from the eligible educational institution during 2016

Adjusted Qualified Education Expenses

- The tax-free part of any scholarship or fellowship grant (including Pell grants)
- The tax-free part of any employer-provided educational assistance
- Veterans' educational assistance
- Any other educational assistance that is excludable from gross income (tax free), other than as a gift, bequest, devise, or inheritance

Other Issues

- Refunds received after 2016 but before the income tax return is filed
- Refunds received after 2016 and after the income tax return is filed
- Coordination with Coverdell education savings accounts and qualified tuition programs

Eligible Educational Institution

- An eligible educational institution is generally any accredited public, nonprofit, or proprietary (private) college, university, vocational school, or other postsecondary institution
- Also, the institution must be eligible to participate in a student aid program administered by the Department of Education
- Virtually all accredited postsecondary institutions meet this definition
- An eligible educational institution also includes certain educational institutions located outside the United States that are eligible to participate in a student aid program administered by the Department of Education
- The educational institution should be able to tell the client if it is an eligible institution

Website

- https://fafsa.ed.gov/FAFSA/app/schoolSearch?locale=en_EN
- <https://studentaid.ed.gov/sa/prepare-for-college/choosing-schools/types/international>
- <http://ope.ed.gov/accreditation/index.aspx>

Comparison of Education Credits for 2016

	American Opportunity Credit	Lifetime Learning Credit
Maximum credit	Up to \$2,500 credit per eligible student	Up to \$2,000 credit per return
Limit on modified adjusted gross income (MAGI)	\$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	\$131,000 if married filing jointly; \$65,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	40% of credit may be refundable; the rest is nonrefundable	Nonrefundable—credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available ONLY if the student had not completed the first 4 years of postsecondary education before 2016	Available for all years of postsecondary education and for courses to acquire or improve job skills
Number of tax years credit available	Available ONLY for 4 tax years per eligible student (including any year(s) Hope credit was claimed)	Available for an unlimited number of tax years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half time for at least one academic period beginning during 2016 (or the first 3 months of 2017 if the qualified expenses were paid in 2016)	Available for one or more courses
Felony drug conviction	As of the end of 2016, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2016 for academic periods beginning in 2016 or beginning in the first 3 months of 2017	
TIN needed by filing due date	Fillers and students must have a TIN by the due date of their 2016 return (including extensions)	

Phase-out for AOTC and LLC

- The MAGI is the following:
 - a. For the American Opportunity Credit: \$180,000 or more if married filing jointly, or \$90,000 or more if single, head of household, or qualifying widow(er) with dependent child
 - b. For the lifetime learning credit: \$131,000 or more if married filing jointly, or \$65,000 or more if single, head of household, or qualifying widow(er) with dependent child.

American Opportunity Credit

- The client may be able to claim a credit of up to \$2,500 for adjusted qualified education expenses paid for each student who qualifies for the American Opportunity Credit
- This credit equals 100% of the first \$2,000 and 25% of the next \$2,000 of adjusted qualified education expenses paid for each eligible student
- The amount of the credit for 2016 is gradually reduced (phased out) if the MAGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return)
- The client cannot claim a credit if the MAGI is \$90,000 or more (\$180,000 or more if you file a joint return)

Besides the Phase-Out the Credit Cannot be Claimed if the Following Applies

- 1. The student is claimed as a dependent on another person's tax return
- 2. The filing status is married filing separately
- 3. The client or spouse were a nonresident aliens for any part of 2016 and did not elect to be treated as a resident alien for tax purposes

Student Qualifications

- As of the beginning of 2016, the student had not completed the first 4 years of postsecondary education (generally, the freshman through senior years of college), as determined by the eligible educational institution
- For this purpose, do not include academic credit awarded solely because of the student's performance on proficiency examinations
- Neither the American Opportunity Credit nor the Hope Scholarship Credit has been claimed (by the client anyone else) for this student for any 4 tax years before 2016
- If the American Opportunity Credit (and Hope Scholarship Credit) has been claimed for this student for any 3 or fewer tax years before 2016, this requirement is met

Student Qualifications

- For at least one academic period beginning or treated as beginning in 2016, the student both:
 - a. Was enrolled in a program that leads to a degree, certificate, or other recognized educational credential; and
 - b. Carried at least one-half the normal full-time workload for his or her course of study
- The standard for what is half of the normal full-time work load is determined by each eligible educational institution
- However, the standard may not be lower than any of those established by the U.S. Department of Education under the Higher Education Act of 1965
- For 2016, treat an academic period beginning in the first 3 months of 2017 as if it began in 2016 if qualified education expenses for the student were paid in 2016 for that academic period

Student Qualifications

- As of the end of 2016, the student had not been convicted of a federal or state felony for possessing or distributing a controlled substance
- Filers and students must have a TIN by the due date of the 2016 return

Sharon

- Sharon was eligible for the American Opportunity Credit for 2010, 2011, 2012, and 2015
- Her parents claimed the American Opportunity Credit for Sharon on their 2010, 2011, and 2012 tax returns
- Sharon claimed the American Opportunity Credit on her 2015 tax return
- The American Opportunity Credit has been claimed for Sharon for 4 tax years before 2016
- Therefore, the American Opportunity Credit cannot be claimed for Sharon for 2016
- If Sharon were to file Form 8863 for 2016, she would check "Yes" for Part III, line 23, and would be eligible to claim only the lifetime learning credit

2016 Form 8863

Complete Part III for each student for whom you're claiming either the American opportunity credit or lifetime learning credit. Use additional copies of page 2 as needed for each student.

Part III Student and Educational Institution Information

See instructions.

20 Student name (as shown on page 1 of your tax return) 21 Student social security number (as shown on page 1 of your tax return)

22 Educational institution information (see instructions)

a. Name of first educational institution

(1) Address, number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.

(2) Did the student receive Form 1098-T from this institution for 2016? ☐ Yes ☐ No

(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? ☐ Yes ☐ No

If you checked "No" in both (2) and (3), skip (4).

(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T).

b. Name of second educational institution (if any)

(1) Address, number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.

(2) Did the student receive Form 1098-T from this institution for 2016? ☐ Yes ☐ No

(3) Did the student receive Form 1098-T from this institution for 2015 with box 2 filled in and box 7 checked? ☐ Yes ☐ No

If you checked "No" in both (2) and (3), skip (4).

(4) If you checked "Yes" in (2) or (3), enter the institution's federal identification number (from Form 1098-T).

23 Has the Hope Scholarship Credit or American opportunity credit been claimed for this student for any 4 tax years before 2016? ☐ Yes — Stop! Go to line 31 for this student. ☐ No — Go to line 24.

Wilbert

- Wilbert was eligible for the American Opportunity Credit for 2012, 2013, 2014, and 2016
- His parents claimed the American opportunity Credit for Wilbert on their tax returns for 2012, 2013, and 2014
- No one claimed an American opportunity credit or Hope scholarship credit for Wilbert for any other tax year
- The American Opportunity Credit and Hope Scholarship Credit have been claimed for Wilbert for only 3 tax years before 2016
- Therefore, Wilbert meets the second requirement to be eligible for the American Opportunity Credit
- If Wilbert were to file Form 8863 for 2016, he would check "No" for Part III, line 23
- Wilbert meets all of the other requirements, he is eligible for the American Opportunity Credit

Glenda

- Glenda enrolls on a full-time basis in a degree program for the 2017 Spring semester, which begins in January 2017
- Glenda pays her tuition for the 2017 Spring semester in December 2016
- Because the tuition Glenda paid in 2016 relates to an academic period that begins in the first 3 months of 2016, her eligibility to claim an American Opportunity Credit in 2016 is determined as if the 2017 Spring semester began in 2016

Refundable American Opportunity Credit

- A refundable credit can give the client a refund even if they owe no tax and are not otherwise required to file a tax return
- A nonrefundable credit can reduce the tax, but any excess is not refunded

Who Cannot Claim any Part of the American Opportunity Credit as a Refundable Credit

- The client will not qualify for a Refundable American Opportunity
- Credit if 1 (a, b, or c), 2, and 3 below apply to you
- 1. The student was:
 - a. Under age 18 at the end of 2016, or
 - b. Age 18 at the end of 2016 and the earned income was less than one-half of the support, or
 - c. Over age 18 and under age 24 at the end of 2016 and a full-time student and the earned income was less than one-half of the support
- 2. At least one of the parents were alive at the end of 2016
- 3. The individual was not filing a joint return for 2016

Questions to Consider

- You should address the following questions to your client concerning the individuals for whom they are taking as a dependent to do determine whether they qualify for a refundable American opportunity credit
- Were they under age 24 at the end of 2016?
 - If no, stop here; they do qualify to claim part of the allowable American Opportunity Credit as a refundable credit
- Were you over age 18 at the end of 2016?
- Were you a full-time student for 2016?
 - If no, stop here; they do qualify to claim part of your allowable American Opportunity Credit as a refundable credit

Questions to Consider

- Was earned income less than one-half of your support for 2016?
- Were either of your parents alive at the end of 2015?
- Are you filing a joint return for 2016?

Earned Income

- Earned income includes wages, salaries, professional fees, and other payments received for personal services actually performed
- Earned income includes the part of any scholarship or fellowship grant that represents payment for teaching, research, or other services performed by the student that are required as a condition for receiving the scholarship or fellowship grant
- Earned income does not include that part of the compensation for personal services rendered to a corporation which represents a distribution of earnings or profits rather than a reasonable allowance as compensation for the personal services actually rendered

Earned Income

- If the client is a sole proprietor or a partner in a trade or business in which both personal services and capital are material income-producing factors, earned income also includes a reasonable allowance for compensation for personal services, but not more than 30% of the share of the net profits from that trade or business (after subtracting the deduction for one-half of self-employment tax)
- However, if capital is not an income-producing factor and the personal services produced the business income, the 30% limit does not apply

Support

- Support includes food, shelter, clothing, medical and dental care, education and the like
- Generally, the amount of an item of support will be the amount of expenses incurred by the one furnishing such item
- If the item of support is in the form of property or lodging, measure the amount of such item of support by its fair market value
- To figure support, count support provided by yourself, your parents, and others
- However, a scholarship received by the student is not considered support if the individual was a full-time student for 2016

Full-time Student

- Solely for purposes of determining whether a scholarship is considered support, and individual is a full-time student for 2016 if during any part of any 5 calendar months during the year they were enrolled as a full-time student at an eligible educational institution, or took a full-time, on farm training course given by such an institution or by a state, county, or local government agency

Lifetime Learning Credit

- The Lifetime Learning Credit equals 20% of adjusted qualified education expenses, up to a maximum of \$10,000 of adjusted qualified education expenses per return
- Therefore, the maximum lifetime learning credit that claim on the return for the year is \$2,000, regardless of the number of students for whom qualified expenses were paid

Lifetime Learning Credit

- The amount of the credit for 2016 is gradually reduced (phased out) if the MAGI is between \$55,000 and \$65,000 (\$111,000 and \$131,000 if you file a joint return)
- The client cannot claim a credit if the MAGI is \$65,000 or more (\$131,000 or more if you file a joint return)
- The client cannot claim the Lifetime Learning Credit for any student if they claim the American Opportunity Credit for that student for the same tax year

Coordination with Pell grants and Other Scholarships or Fellowship Grants

- The client may be able to increase an education credit and reduce the total tax or increase the tax refund if the student (that can be claimed as a dependent) chooses to include all or part of certain scholarships or fellowship grants in income
- The scholarship or fellowship grant must be one that may qualify as a tax-free scholarship
- Also, the scholarship or fellowship grant must be one that may (by its terms) be used for expenses other than qualified education expenses (such as room and board)

Coordination with Pell grants and Other Scholarships or Fellowship Grants

- The fact that the educational institution applies the scholarship or fellowship grant to qualified education expenses (such as tuition and related fees) does not prevent the student from choosing to apply certain scholarships or fellowship grants to other expenses (such as room and board)
- By choosing to do so, the student will include the part applied to other expenses (such as room and board) in gross income and may be required to file a tax return

Coordination with Pell grants and Other Scholarships or Fellowship Grants

- However, this allows payments made in cash, by check, by credit or debit card, or with borrowed funds such as a student loan, to be applied to qualified education expenses
- These payments, unlike certain scholarships or fellowship grants, will not reduce the qualified education expenses available to figure an education credit
- The result is generally a larger education credit that reduces your total tax or increases the tax refund.

Example

- Last year, the client's child graduated from high school and enrolled in college for the fall semester
- The client and child meet all other requirements to claim the American Opportunity Credit, and you need to assist the client in determining the adjusted qualified education expenses to figure the credit
- The child has \$5,000 of qualified education expenses and \$4,000 of room and board
- The child received a \$5,000 Pell grant and took out a \$2,750 student loan to pay these expenses
- The client pays the remaining \$1,250

Example

- The Pell grant by its terms may be used for any of these expenses
- If the client chooses to apply the Pell grant to the qualified education expenses, it will qualify as a tax-free scholarship
- The child will not include any part of the Pell grant in gross income
- After reducing qualified education expenses by the tax-free scholarship, the client will have \$0 (\$5,000 – \$5,000) of adjusted qualified education expenses available to figure the credit
- The credit will be \$0

Example 2 – Taken a Further Step

- The facts are the same as in previous example
- If, unlike in the previous example the client chooses to apply only \$1,000 of the Pell grant to the qualified education expenses and to apply the remaining \$4,000 to room and board, only \$1,000 will qualify as a tax-free scholarship
- The child will include the \$4,000 applied to room and board in gross income, and it will be treated as earned income for purposes of determining whether your child is required to file a tax return
- If the \$4,000 is the child's only income, the child will not be required to file a tax return

Example 2 – Taken a Further Step

- After reducing qualified education expenses by the tax-free scholarship the client will have \$4,000 (\$5,000 - \$1,000) of adjusted qualified education expenses available to figure your credit
- The refundable American opportunity credit will be \$1,000
- The nonrefundable credit may be as much as \$1,500, but depends on tax liability

Note

- The result may be different if the child has other income or if the client is the student
- If the client is the student and claims the earned income credit, choosing not to apply a Pell grant to qualified education expenses may decrease the earned income credit at certain income levels by raising the adjusted gross income
- However, the client generally needs at least \$2,000 of adjusted qualified education expenses to receive the maximum benefit of claiming both credits

CALT Website

<http://www.calt.iastate.edu/>



Tour of the CALT Website



Fall Tax Schools

- Though they are named the Farm and Urban Tax Schools the schools cover more than farm issues
- Common return issues for all kinds of returns are covered
- All kinds of business entities
- Problematic issues
- Sometimes we even get into to issues that you many encounter only once or twice a year or tax season
- The Tax Schools are a blend of diverse topics of interest to all tax professionals
- This year: New instructors with diverse backgrounds
- Your adventure awaits at Iowa State's Center for Agricultural Law and Taxation

Farm and Urban Tax Schools 2016

- November 2, 2016 to December 13, 2016
- 8 Locations in Iowa and Online Webinar
- Save the Date for the 2016 Annual Farm and Urban Income Tax Schools
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations
 - November 2-3: Maquoketa
 - November 7-8: Red Oak
 - November 9-10: Sheldon
 - November 14-15: Mason City
 - November 17-18: Ottumwa
 - November 21-22: Waterloo
 - December 5-6: Denison
 - December 12-13: Ames and Live Webinar

Winter Webinars

- Miscellaneous Income
- Tax Research with Limited Resources
- Tax law Update: New Developments
- Monthly Ethics Classes

The Scoop

- Throughout the filing season two Scoops will be held on Scoop Dates
 - 8:00 – 8:30 am Central time
 - 12:00 – 12:30 Central time
- This assists with accommodating our west coast practitioners
- The same information will be shared at both sessions
- You have the option of registering for whatever session suits your schedule
- <https://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

Future Scoop Dates

- October 19, 2016
- November 16, 2016
- December 14, 2016
- <http://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

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