

Take Advantage of Tax Breaks

Borrowing federal student loans gives you certain tax advantages. Whether you are in repayment, taking classes, or working, you may be eligible for these incentives for tax year 2009.

All of these deductions and credits have distinct eligibility requirements. Before claiming any incentives, consult a tax professional. Visit www.irs.gov for more information.

Tax Deductions

Student Loan Interest Deduction

You may qualify for a tax deduction just by paying your student loans. If you are not a dependent listed on someone else's tax return, it is possible for you to deduct up to \$2,500 of student loan interest paid a year. Eligible taxpayers need to have a modified adjusted gross income (MAGI, see below for more information) less than \$60,000 (\$120,000 if filing jointly). If your MAGI is more than \$60,000 but less than \$75,000 (\$120,000 and \$150,000 if filing jointly), you may be eligible for a smaller deduction. If you make more than \$75,000 (\$150,000 if filing jointly), you are not eligible to deduct student loan interest.

Tuition and Fees Deduction

You may be able to deduct qualified education expenses—including tuition and fees—paid for you, your spouse, or a dependent. If your MAGI is less than \$65,000 (\$130,000 if filing jointly), you may be able to deduct \$4,000 in qualified expenses. If your MAGI is more than \$65,000 but less than \$80,000 (\$160,000 if filing jointly), you may be eligible for a \$2,000 deduction. If you make more than \$80,000 (\$160,000 if filing jointly), you are not eligible for the tuition and fees deduction.

Employer Education Assistance

Your employer may provide you with education assistance benefits for undergraduate or graduate courses tax-free each year. Benefits can be up to \$5,250. Payments above \$5,250 may also be tax-free if they represent a working condition fringe benefit. Benefits must be paid toward tuition, fees, books, supplies, or equipment. If you paid for the expenses, you may be able to deduct them as an employee business expense.

Education Credits

You may be eligible for the Lifetime Learning Tax Credit, the American Opportunity Tax Credit, and the Hope Credit, but some restrictions apply. You're ineligible for these credits if you're married and file a separate return from your spouse or if you're listed as a dependent on another person's tax return. You cannot claim multiple credits for the same student in the same year. You cannot take both an education credit and the tuition and fees deduction for the same student in the same year.

Lifetime Learning Tax Credit

You may claim a Lifetime Learning Credit for qualified education expenses each year you are in school. Your credit can be up to \$2,000 (or \$4,000 for students in Midwestern disaster areas) if your MAGI is less than \$50,000 (\$100,000 if filing jointly). If your MAGI is between \$50,000 and \$60,000 (\$100,000 to \$120,000 if filing jointly), you may be eligible for a partial credit. Qualified expenses include money you've paid directly for education or from borrowed funds. This tax credit reduces the amount of income tax you may have to pay, and there's no limit on the number of years you can claim it.

American Opportunity Credit and Hope Credit

The American Opportunity Credit (a modification of the Hope Credit) benefits students who are enrolled at least half time for at least one academic period during the tax year. This credit is available for tax years 2009 and 2010. Students must be pursuing an undergraduate degree or other recognized education credential. This credit is available for the first 4 years of postsecondary education. You can claim up to \$2,500 if your MAGI is less than \$80,000 (\$160,000 if filing jointly). If your income is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if filing jointly), you may qualify for a credit of a lower amount. If the calculated credit exceeds your tax obligation, you may receive up to 40 percent of the tax credit amount as a refund.

You can claim the Hope Credit only if you have at least one eligible student attending an eligible institution in a Midwestern disaster area. This credit is available for the first 2 years of postsecondary education. If eligible for the Hope Credit, you can claim up to \$3,600 if your MAGI is less than \$50,000 (\$100,000 if filing jointly). If your MAGI is between \$50,000 and \$60,000 (\$100,000 to \$120,000 if filing jointly), you may be eligible for a partial credit.

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Find out more tips for ensuring your financial wellness at www.asa.org.

Successfully Manage Your Student Loans

From application through repayment, you and your family can expect neutral, honest federal student loan solutions from American Student Assistance® (ASA). As a nonprofit working with the U.S. Department of Education, ASA's focus is not on selling you anything. Our focus is on your financial wellness, and it always will be.

Highlights of education tax benefits for tax year 2009

	American Opportunity Tax Credit	Hope Credit*	Lifetime Learning Credit	Tuition and Fees Deduction	Student Loan Interest Deduction
Maximum Credit/Deduction	Up to \$2,500 credit per eligible student.	Up to \$1,800 (\$3,600 if a student in a Midwestern disaster area) credit per eligible student.	Up to \$2,000 (\$4,000 if a student in a Midwestern disaster area) credit per return.	\$4,000 or \$2,000 depending on MAGI.	Up to \$2,500.
Limit on modified adjusted gross income (MAGI)	\$90,000 (\$180,000 if joint return)	\$60,000 (\$120,000 if joint return)	\$60,000 (\$120,000 if joint return)	Smaller deduction with MAGI between \$65,000 and \$80,000 (\$130,000 and \$160,000 on joint return) and unavailable when MAGI more than \$80,000 (\$160,000 on joint return)	MAGI is less than \$75,000 (\$150,000 on a joint return)
Number of years of post-secondary education	Available only for the first 4 years of postsecondary education.	Available only for the first 2 years of postsecondary education.	Available for all years of postsecondary education and for courses to acquire or improve job skills.	N/A	N/A
Number of tax years available	Available only for 4 tax years per eligible student.	Available only for 2 tax years per eligible student.	Unlimited.	Available any year qualifying educational expenses are paid.	Available as long as student/filer is making qualifying student loan interest payments.
Type of degree required	Student must be pursuing an undergraduate degree or other recognized education credential.	Student must be pursuing an undergraduate degree or other recognized education credential.	No degree is required.	Student must be enrolled in at least one class at an eligible institution and have received a high school diploma or GED.	Loan proceeds had to have been used during a period that the student was enrolled at least half time in a degree program at a Title IV participating institution.
Qualified expenses	Tuition and required enrollment fees, course-related books, supplies, and equipment (do not need to be purchased from the institution to qualify).	Tuition and required enrollment fees, including amounts required to be paid to the institution for books, supplies, and equipment; additional expenses are allowed for students in Midwestern disaster area.	Tuition and required enrollment fees, including amounts required to be paid to the institution for books, supplies, and equipment; additional expenses are allowed for students in Midwestern disaster area.	Tuition and certain related expenses required for enrollment paid directly or with loan proceeds by the student/filer. Expenses that do not qualify include, but are not limited to, medical insurance, room and board, and living/personal expenses.	Loan proceeds had to be used to pay tuition, fees, room, board, supplies, equipment, books, and any other necessary expenses for enrollment.

(Source: Department of the Treasury's Internal Revenue Service Publication 17, Your Federal Income Tax for Individuals and Publication 970, Tax Benefits for Education.)

*Available only when student is attending an eligible institution in the Midwestern disaster area.