

# Brief Summary

## Internal Revenue Service (IRS) Tax Benefits for Education

### Tax Benefits

*IRS Publication 970, Tax Benefits for Education* details several federal income tax benefits that might apply to your situation. The following is a summary:

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#### Tax Credits for Higher Education Expenses

Two tax credits help offset the costs (tuition, fees, books, supplies, equipment) of college by reducing the amount of your income tax:

- The American Opportunity Credit allows you to claim up to \$2,500 per student per year for the first four years of school as the student works toward a degree or similar credential.
- The Lifetime Learning Credit allows you to claim up to \$2,000 per student per year for any college tuition and fees, as well as for books, supplies, and equipment that were required for the course and had to be purchased from the school.

Even if you normally wouldn't file a tax return because of your income level, be sure to do so or you may miss out on tax credits that would put money in your pocket.

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#### Coverdell Education Savings Account

A Coverdell Education Savings Account allows up to \$2,000 a year to be put aside for a student's education expenses (elementary, secondary, or college).

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#### Qualified Tuition Programs (QTPs; also known as 529 Plans)

A QTP/529 plan is established by a state or school so that you can either prepay or save up to pay education-related expenses. Once you're in college or career school and you withdraw money from your account to pay your education expenses, the money you withdraw will not be taxed. To learn more about state 529 plans, ask your financial aid or admissions staff.

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#### Student Loan *Interest* Deduction

You can take a tax deduction for the interest paid on student loans that you took out for yourself, your spouse, or your dependent. This benefit applies to all loans (not just federal student loans) used to pay for higher education expenses. The maximum deduction is \$2,500 a year.

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#### IRA Withdrawals for College Costs

You may withdraw from an IRA to pay higher education expenses for yourself, your spouse, your child, or your grandchild. You will owe federal income tax on the amount withdrawn, but won't be subject to the early withdrawal penalty.