

A & B Office

Income Tax Training School

Education Benefits

Student Loan Interest & Education Expenses

Key Features:

- Learn how to properly calculate education expenses.
- Step-by-step description of the education expense methodology.
- Master this mini-course quickly; easy to understand material with helpful explanations expedite learning.
- Material designed for rapid learning and successful completion.
- Be prepared to help your current clientele and gain new clients.

OMB No. 1545-1576
2014
Form 1098-E
Student Loan Interest Statement
Copy A
For Internal Revenue Service Center
File with Form 1096.
For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.
2 Check if box 1 does not include loan origination fees and/or capitalized interest, and the loan was made before September 1, 2004
www.irs.gov/form1098e
Department of the Treasury - Internal Revenue Service
Cat. No. 25088U
Do Not Cut or Separate Forms on This Page

Level:
Beginner
Intermediate

A Self-Improvement Mini-Course

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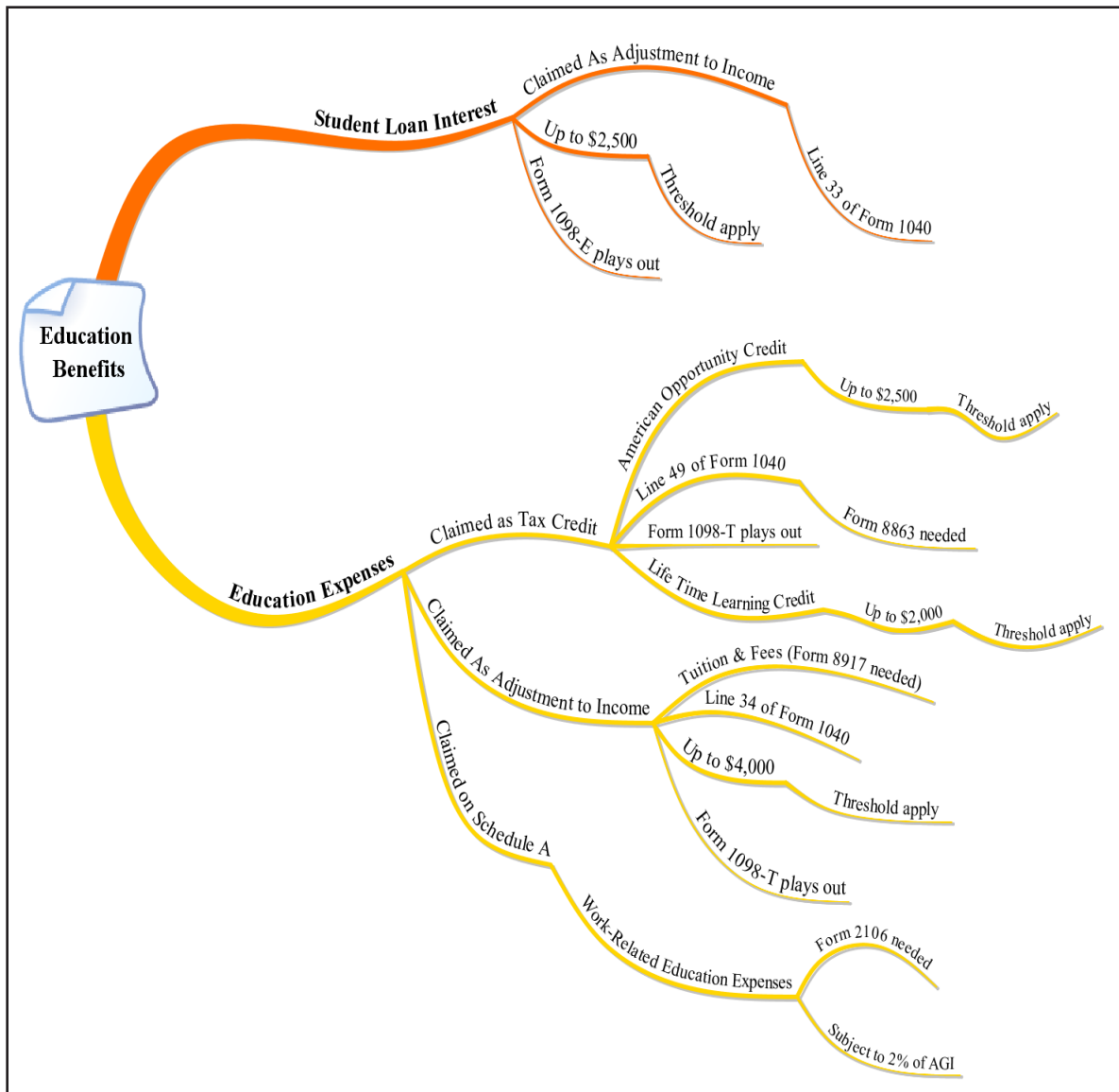
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Student Loan Interest & Education Expenses

Introduction

The tax benefits of education expenses in general consist of two elements: Student Loan Interest and paid Education Expenses. The IRS has different treatments for these expenses and it can cause confusion for taxpayers and tax-preparers alike. At times, a tax preparer can find it difficult to determine where to claim the expense properly, and ultimately find the taxpayer the greatest benefit. Keep in mind that Student Loan Interest is reported under Adjusted Gross Income, line 33 of Form 1040, reducing the income and obviously generating less tax. On the other hand, Education Expenses can be a credit that will reduce the tax calculated, this is reported on line 49 of form 1040 (page 2), OR it can be treated as an adjustment to income on line 34 of the same form. In addition, Work-related Education Expenses can be claimed on Schedule A, but provide less impact on the tax return. Which path provides the greatest benefit? In this mini-course we will guide you to the correct answer.

To get a better understanding of this mini-course, please review the following graph.



8383 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-1574		2014 Form 1098-T	Tuition Statement
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 \$	2 Amounts billed for qualified tuition and related expenses \$		
FILER'S federal identification no.	STUDENT'S social security number	3 Check if you have changed your reporting method for 2014 <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2014 General Instructions for Certain Information Returns.	
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$		
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$	7 Check this box if the amount in box 1 or 2 includes amounts for an academic period beginning January - March 2015 <input type="checkbox"/>		
City or town, state or province, country, and ZIP or foreign postal code		8 Check if at least half-time student <input type="checkbox"/>	9 Check if a graduate student <input type="checkbox"/>		
Service Provider/Acct. No. (see instr.)			10 Ins. contract reimb./refund \$		
Form 1098-T Cat. No. 25087J www.irs.gov/form1098t 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					

Form W-9S. Remember form W-9? This is the IRS form used by a company to request your taxpayer identification number. You may get a blank Form W-9 to fill out if you or your business are hired to provide services to another company. Most often, Form W-9 is sent to independent contractors, consultants, and other self-employed workers. Form W-9 is also used by banks and other financial institutions to request tax information from customers. Filling out a W-9 is pretty straightforward. Just provide your name and Social Security Number, or the name and Employer Identification Number of your business.

As you can see the purpose of this form is similar to the independent contractor is required to fill out. An eligible educational institution, such as a college or university, or a lender of a student loan must get your correct identifying number to file certain information returns with the IRS and to furnish a statement to you. For students, this will be your Social Security Number (SSN) or, if you are not eligible to obtain an SSN, your Individual Taxpayer Identification Number (ITIN). The income tax returns they must file contain information about qualified tuition and related expenses (Form 1098-T, *Tuition Statement*) and student loan interest (Form 1098-E, *Student Loan Interest Statement*). The information about your tuition will help to determine whether you, or the person who can claim you as a dependent, may take either the tuition and fees deduction **or** claim an education credit to reduce federal income tax. The information about your student loan interest will help to determine your deduction for such interest. For more information, see Pub. 970, *Tax Benefits for Education*.

Use Form W-9S to give your correct SSN or ITIN to the person requesting it and, if applicable, to certify that the proceeds of a loan are being used, or will be used, solely to pay for qualified higher education expenses. You are required to provide the requested information.

Note: The educational institution or lender may request your SSN or ITIN and certification on paper or electronically.

Form W-9S (Rev. March 2008) Department of the Treasury Internal Revenue Service	Request for Student's or Borrower's Taxpayer Identification Number and Certification	Give form to the requester. Do not send to the IRS.
Part I Student or Borrower Identification (All must complete.)		
int or type	Name of student or borrower (see instructions)	Taxpayer identification number
	Address (number, street, and apt. or suite no.)	

1	Enter the total interest you paid in 2013 on qualified student loans (see Form 1040 instructions).	1	800.
2	Enter the smaller of line 1 or \$2,500.	2	800.
3	Modified AGI	3	145,000.
	Note: If line 3 is \$75,000 or more if single, head of household, or qualifying widow(er) or \$155,000 or more if married filing jointly, stop here . You cannot take the deduction.		
4	Enter: \$60,000 if single, head of household, or qualifying widow(er); \$125,000 if married filing jointly.	4	125,000.
5	Subtract line 4 from line 3. If zero or less, enter -0- here and on line 7, skip line 6, and go on to line 8	5	20,000.
6	Divide line 5 by \$15,000 or \$30,000 if married filing jointly. Enter the result as a decimal (rounded to at least three places)	6	0.6667
7	Multiply line 2 by line 6	7	533.
8	Student loan interest deduction. Subtract line 7 from line 2. Enter the result here and on Form 1040, line 33. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)	8	267.

Richard's reduced student loan interest deduction is \$267 (\$800 – \$533). Simply stated, you only need to use your tax software worksheet to calculate this deduction by entering in \$800 in line 1 of the worksheet and you are done.

Example 2. The facts are the same as in Example 1, except that he paid \$2,750 interest. His maximum deduction for 2013 is \$2,500. He must reduce his maximum deduction by \$1,667, figured as follows.

1	Enter the total interest you paid in 2013 on qualified student loans (see Form 1040 instructions).	1	2,750.
2	Enter the smaller of line 1 or \$2,500.	2	2,500.
3	Modified AGI	3	145,000.
	Note: If line 3 is \$75,000 or more if single, head of household, or qualifying widow(er) or \$155,000 or more if married filing jointly, stop here . You cannot take the deduction.		
4	Enter: \$60,000 if single, head of household, or qualifying widow(er); \$125,000 if married filing jointly.	4	125,000.
5	Subtract line 4 from line 3. If zero or less, enter -0- here and on line 7, skip line 6, and go on to line 8	5	20,000.
6	Divide line 5 by \$15,000 or \$30,000 if married filing jointly. Enter the result as a decimal (rounded to at least three places)	6	0.6667
7	Multiply line 2 by line 6	7	1,667.
8	Student loan interest deduction. Subtract line 7 from line 2. Enter the result here and on Form 1040, line 33. Do not include this amount in figuring any other deduction on your return (such as on Schedule A, C, E, etc.)	8	833.

In this example, the reduced student loan interest deduction is \$833 (\$2,500 – \$1,667).

Reporting The Deduction. The student loan interest deduction is an adjustment to income. To claim the deduction, enter the allowable amount on line 33 (Form 1040), line 18 (Form 1040A), line 33 (Form 1040NR), or line 9 (Form 1040NR-EZ).

Worksheet Choice. As we explained earlier, your tax software will do the job for you. It is unlikely that you will use the worksheet provided by the IRS. In this case, you can use the worksheet provided by the IRS in Form 1040 (instructions).

Education Expenses

Introduction

This section of the course relates to Education Expense in general. In the following pages, we will explain the American Opportunity and Lifetime Learning Credits, the Tuition and Fees Deduction, and Work-related expenses.

Education expenses are one of the more challenging items to deal with on a tax return. There are four different places the education expense may be used.

- American Opportunity Credit. As a credit on line 49 of Form 1040. Form 8863 part I needed.
- Lifetime Learning Credit. As a credit on line 49 of Form 1040. Form 8863 part II needed.
- Tuition and Fees Deduction. As an adjustment to income on line 34 of Form 1040.
- Work-related Education Expenses on Schedule A (discussed briefly in this mini-course).

The preparer should use whichever option benefits the taxpayer the most. Unfortunately, there is not an easy way to determine which to use. As a preparer, you will need to calculate the return each way to determine which is most beneficial. Using a good tax software will help you to achieve the best outcome.

As a Deduction

Adjusted Gross Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid b Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Tuition and fees. Attach Form 8917	34	
	35	Domestic production activities deduction. Attach Form 8903	35	
		36	Add lines 23 through 35	36
	37	Subtract line 36 from line 22. This is your adjusted gross income	37	

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As a Credit

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	
	39a	Check <input type="checkbox"/> You were born before January 2, 1949, <input type="checkbox"/> Blind. } Total boxes		
		if: <input type="checkbox"/> Spouse was born before January 2, 1949, <input type="checkbox"/> Blind. } checked ▶ 39a		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b <input type="checkbox"/>		
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	
	41	Subtract line 40 from line 38	41	
	42	Exemptions. If line 38 is \$150,000 or less, multiply \$3,900 by the number on line 6d. Otherwise, see instructions	42	
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
	44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	
	45	Alternative minimum tax (see instructions). Attach Form 6251	45	
	46	Add lines 44 and 45	46	
	47	Foreign tax credit. Attach Form 1116 if required	47	
	48	Credit for child and dependent care expenses. Attach Form 2441	48	
	49	Education credits from Form 8863, line 19	49	
50	Retirement savings contributions credit. Attach Form 8880	50		
51	Child tax credit. Attach Schedule 8812, if required	51		
52	Residential energy credits. Attach Form 5695	52		
53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53		
54	Add lines 47 through 53. These are your total credits	54		
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55		

Standard Deduction for—
 • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.
 • All others:
 Single or Married filing separately, \$6,100
 Married filing jointly or Qualifying widower, \$12,200
 Head of household, \$8,950

On Schedule A

Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶	21	
	22	Tax preparation fees	22	
	23	Other expenses—investment, safe deposit box, etc. List type		

	<u>Mary's Education Expenses</u>		
	<u>American Opportunity</u>	<u>Lifetime</u>	<u>Tuition Deduction</u>
Total Income	\$39,000	\$39,000	\$39,000
Tuition Deduction	-	-	(4,000) (a)
Standard Deduction & Exemption	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>
Taxable income	<u>29,000</u>	<u>29,000</u>	<u>25,000</u>
Tax	3,908	3,908	3,308
American Opportunity Credit	(1,500) (b)	-	-
Lifetime Learning Credit	-	(1,485) (c)	-
Refundable American Opportunity	<u>1,000 (b)</u>	<u>-</u>	<u>-</u>
Total Owe	<u>\$ 1,408</u>	<u>\$2,423</u>	<u>\$ 3,308</u>

The following pages show Form 8863 for Mary, qualifying for American Opportunity Tax Credit, and Form 8917, qualifying for Tuition and Fees Deductions.

- (a) See calculation on page 44.
- (b) See calculation on page 39.
- (c) See calculation on page 42.

The Best Option For Mary: She Claims The American Opportunity Credit And Qualifies For \$1,000 Refund.

Form **8863**
Department of the Treasury
Internal Revenue Service (99)

Education Credits
(American Opportunity and Lifetime Learning Credits)
▶ Information about Form 8863 and its separate instructions is at www.irs.gov/form8863.
▶ Attach to Form 1040 or Form 1040A.

OMB No. 1545-0074
2013
Attachment
Sequence No. 50

Name(s) shown on return
MARY WILLIAMS

Your social security number
742-14-8456



Complete a separate Part III on page 2 for each student for whom you are 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	2,500.
2	Enter: \$180,000 if married filing jointly; \$90,000 if single, head of household, or qualifying widow(er)	2	90,000.
3	Enter the amount from Form 1040, line 38, or Form 1040A, line 22. If you are filing Form 2555, 2555-EZ, or 4563, or you are excluding income from Puerto Rico, see Pub. 970 for the amount to enter	3	39,000.
4	Subtract line 3 from line 2. If zero or less, stop ; you cannot take any education credit	4	51,000.
5	Enter: \$20,000 if married filing jointly; \$10,000 if single, head of household, or qualifying widow(er)	5	10,000.
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	1.000
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 cannot 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	2,500.
8	Refundable American opportunity credit. Multiply line 7 by 40% (.40). Enter the amount here and on Form 1040, line 66, or Form 1040A, line 40. Then go to line 9 below.	8	1,000.

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	1,500.
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% (.20)	12	
13	Enter: \$127,000 if married filing jointly; \$63,000 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 are filing Form 2555, 2555-EZ, or 4563, or you are 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 49, or Form 1040A, line 31	19	1,500.

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BAA

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Form **8863** (2013)